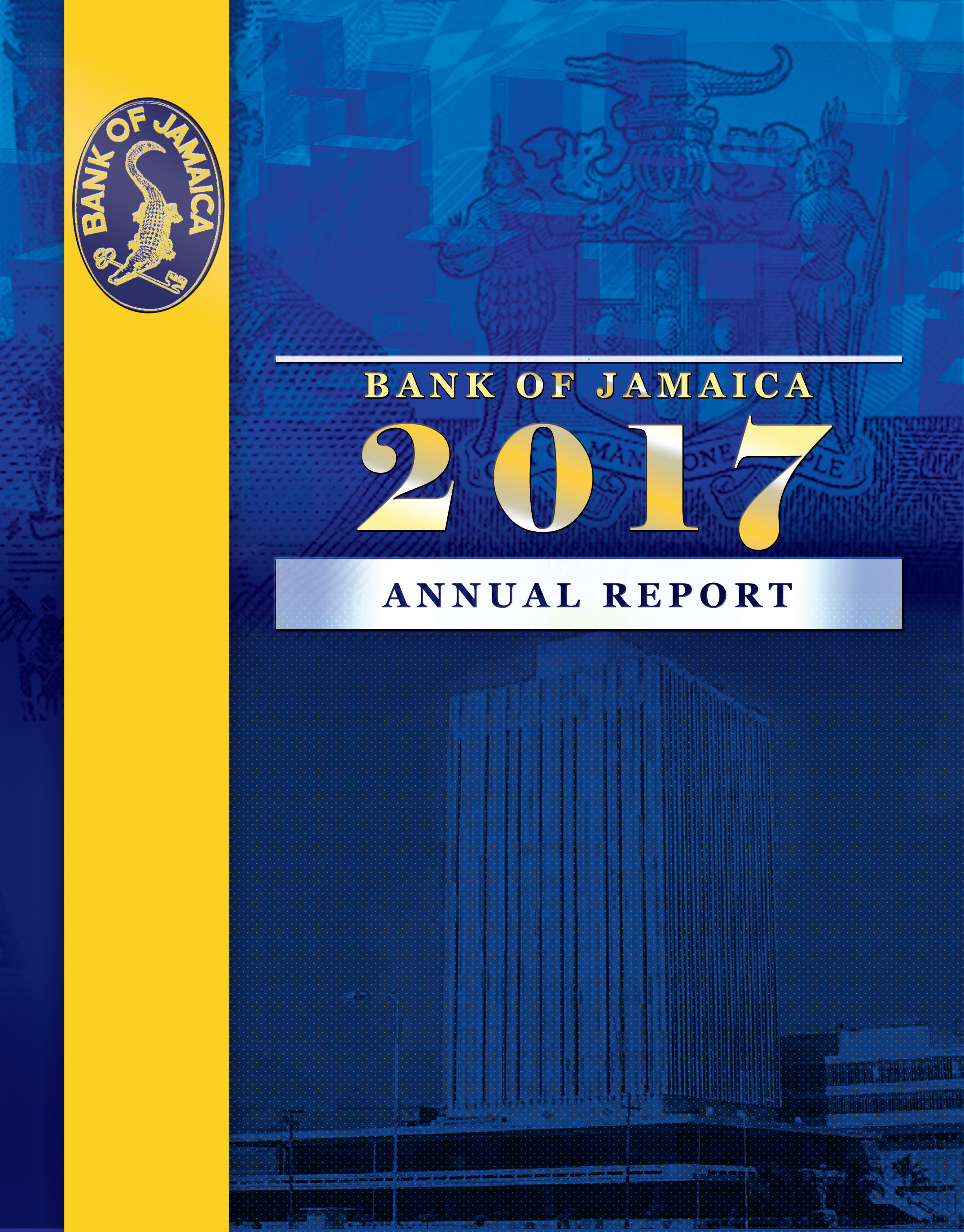

BANK OF JAMAICA

2017

ANNUAL REPORT

ANNUAL REPORT
2017

Report and Statement of Accounts for the
Year Ended 31 December 2017

ⓒ 2018 Bank of Jamaica
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Jamaica

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CORE VALUES
FAIRNESS
HONESTY
TRANSPARENCY
EXCELLENCE
CONFIDENTIALITY
EQUITY
INTEGRITY
RESPECT
TEAMWORK

OUR VISION

The world's leading central bank committed to excellence, fostering public confidence and contributing to the sustainable development of Jamaica.

OUR MISSION

To formulate and implement monetary and regulatory policies to promote price and financial system stability by being a trusted organisation with motivated and professional employees working for the benefit of the people of Jamaica.

BANK OF JAMAICA

The Governor

Bank of Jamaica
Nethersole Place
Kingston, Jamaica, W.I.

01 March 2018

Hon Audley Shaw, CD, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
30 National Heroes Circle
Kingston 4

Dear Minister Shaw,

In accordance with section 44(1) of the Bank of Jamaica Act, I have the honour of transmitting herewith the Bank's report for the year 2017 and a copy of the statement of the Bank's accounts as at 31 December 2017 duly certified by the auditors.

Yours sincerely,

B. Wynter

Brian Wynter, CD

Board of Directors

as at 31 December 2017

Brian Wynter
Governor & Chairman

Christine Clarke

Andrea Coy

Gary "Butch" Hendrickson

Wayne Henry

Darlene Morrison
Financial Secretary

John Robinson
Deputy Chairman

Senior Management

as at 31 December 2017

(Left to Right) Wayne Robinson, Deputy Governor, Research & Economic Programming and Financial Stability; Karen Chin Quee Akin, General Counsel/Deputy Governor, Livingstone Morrison, Deputy Governor, Administration & Technical Services, Finance & Technology, Payment System and Risk Management; Brian Wynter, Governor & Chairman; Maurene Simms, Deputy Governor, Financial Institutions Supervision; and John Robinson, Senior Deputy Governor.

Division Chiefs

Calvin Brown, Division Chief Administration & Technical Services Division

Natalie Haynes, Division Chief Banking & Market Operations Division

Robert Stennett, Division Chief Research & Economic Programming Division

Jide Lewis, Division Chief Financial Institutions Supervision Division

Angela Foote, Chief Audit Executive Internal Audit Division

Ian Williams, Financial Controller Finance & Technology Division

BANK OF JAMAICA
PRINCIPAL OFFICERS
As at 31 December 2017

GOVERNOR
Mr. Brian Wynter, CD

SENIOR DEPUTY GOVERNOR
Mr. John Robinson, CD, JP

DEPUTY GOVERNORS

Mr. Livingstone Morrison	–	Administration & Technical Services, Finance &Technology and Payment Systems & Risk Management Division
Ms. Maurene Simms	–	Financial Institutions Supervisory Division
Dr. Wayne Robinson	–	Research & Economic Programming Division & Financial Stability Department
Mrs. Karen Chin Quee Akin	–	Deputy Governor / General Counsel, Corp. Sec

DIVISION CHIEFS

Mr. Calvin Brown	–	Administration & Technical Services Division
Dr. Jide Lewis	–	Financial Institutions Supervisory Division
Mrs. Natalie Haynes	–	Banking & Market Operations Division
Mr. Robert Stennett	–	Research & Economic Programming Division

FINANCIAL CONTROLLER – DIVISION CHIEF

Mr. Ian Williams	–	Finance and Technology Division

CHIEF AUDIT EXECUTIVE – DIVISION CHIEF

Ms. Angela Foote	–	Internal Audit Division

CONTENTS

ABBREVIATIONS

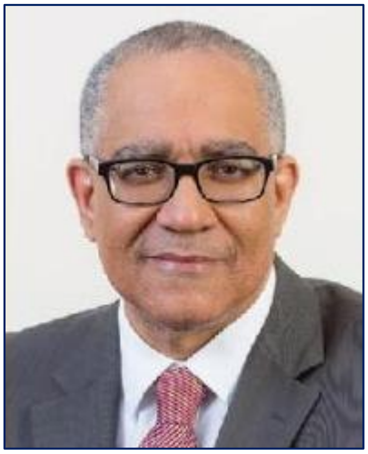
ABM	Automated Banking Machines
ABT	Alcohol, Beverages & Tobacco
ACH	Automated Clearing House
AML	Anti-money Laundering
ARP	Average Realized Price
ASBA	Association of Banking Supervisors of the Americas
Avg	Average
BCG	Basel Consultative Group
BCP	Business Continuity Plan
BCP	Basel Core Principle
Bn	Billion
BOE	Bank of England
BOJ	Bank of Jamaica
BoJ	Bank of Japan
BOJ-SWEP	Bank of Jamaica Summer Work Experience Programme
BOP	Balance of Payments
BMRO	Bi -Monthly Repurchase Operation
bps	Basis points
BSA	Banking Services Act
CAD	Canadian Dollar/Current Account Deficit
CAP	Clarendon Alumina Partners
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CD	Certificate of Deposit
CDB	Caribbean Development Bank
CEO	Chief Executive Officer
CEMLA	Centre for Latin American Monetary Studies
CF	Clothing & Footwear
CFATF	Caribbean Financial Action Task Force
CGBS	Caribbean Group Of Banking Supervisors
CIS	Credit Information Services
CPC	Chief Parliamentary of Counsel
CFT	Counter-Financing of Terrorism
CPI	Consumer Price Index
CPI-AF	Consumer Price Index excluding Agriculture and Fuel
CPI-FF	Consumer Price Index excluding Food and Fuel
CRA	Credit Reporting Act
CRR	Cash Reserve Requirement
CSD	Central Securities Depository
CTMS	Central Treasury Management System
D & CC	Debit & Credit Card
DNFBPs	Designated Non-Financial Businesses & Professions
DTIs	Deposit-taking Institutions

DVBP	Dollar Value of a Basis Point
EBIS	Enterprise Business Intelligence System
ECB	European Central Bank
EFF	Extended Fund Facility
ELMF	Enhanced Liquidity Management Framework
ERPS	Electronic Retail Payment Services
EU	European Union
EWS	Early Warning System
FATF	Financial Action Task Force
Fed	Federal Reserve (US)
FFIT	Full-Fledged Inflation Targeting
FHC	Financial Holding Company
FHERM	Furniture, Household Equipment & Routine Household Maintenance
FIA	Financial Institutions Act
FID	Financial Investigations Division
FIDA	Financial Investigations Division Act
FIU	Financial Intelligence Unit
FNB	Food and Non-alcoholic Beverages
f.o.b.	Free on board
FRC	Financial Regulatory Council
FSB	Financial Stability Board
FSC	Financial Services Commission
FPP	Fiscal Policy Paper
FSAP	Financial Sector Assessment Programme
FX	Foreign Exchange
FY	Fiscal Year
GBP	Great Britain Pound
GCT	General Consumption Tax
GDP	Gross Domestic Product
GFA	Gross Foreign Assets
GKMA	Greater Kingston Metropolitan Area
GOJ	Government of Jamaica
HLTH	Health
HWEG	Housing, Water, Electricity, Gas and Other Fuels
IDB	Inter-American Development Bank
IFPAS	Inflation Forecast & Policy Assessment System
IMF	International Monetary Fund
IPCP	Index of Primary Commodity Prices
IT	Information Technology
JCCUL	Jamaica Co-operative Credit Union League
JDX	Jamaica Debt Exchange
JMD	Jamaica Dollar
JMMB	Jamaica Money Market Brokers
JSE	Jamaica Stock Exchange
JUTC	Jamaica Urban Transit Corporation

KYC	Know-your-customer
LOI	Letter of Intent
LTO	Large Tax Payer Office
MaFI	Macro-Financial Index
MEFP	Memorandum of Economic & Financial Policies
MIIC	Miscellaneous Goods & Services
MOU	Memorandum of Understanding
MN	Million
MPI	Micro-prudential Index
NAMLAC	National Anti-Money Laundering Committee
NCBJ	National Commercial Bank Jamaica Limited
NDA	Net Domestic Assets
NDX	National Debt Exchange
NII	Net Interest Income
NIR	Net International Reserves
NPL	Non-Performing Loans
NPS	National Payment System
NRA	National Risk Assessment
NWC	National Water Commission
OMO	Open Market Operations
OMT	Outright Monetary Transaction
OPB	Other Public Bodies
OSFI	Office of the Superintendent of Financial Institutions
OUC	Other Urban Centres
PAYE	Pay As You Earn (income tax)
PB	Public Bodies
PBOC	People's Bank of China
PD	Primary Dealers
PDVSA	Petróleos de Venezuela, S.A
POCA	Proceeds of Crime Act
POS	Point of Sale
pps	Percentage points
PSE	Public Sector Entity
PSIP	Public Sector Investment Programme
QPC	Quantitative Performance Criteria
R&A	Restaurants and Accommodation
RA	Rural Areas
R&C	Recreation & Culture
ROAA	Return on Average Assets
RSP	Remittance Service Provider
RTGS	Real Time Gross Settlement
SCT	Special Consumption Tax

SDR	Special Drawing Rights
SIPPA	Security Interest in Personal Property Act
SLF	Standing Liquidity Facility
SPB	Selected Public Bodies
SMRO	Six-Month Repurchase Operation
SSBO	Standard of Sound Business Practices
TAJ	Tax Administration Jamaica
TPA	Terrorism Prevention Act
TRAN	Transport
TRIM	Trimmed Mean
USA	United States of America
USAID	United States Agency for International Development
USD	US dollar
UTECH	University of Technology
UWI	University of the West Indies
VRCDs	Variable Rate Certificates of Deposit
WASR	Weighted Average Selling Rate
WATBY	Weighted Average Treasury Bill Yield
WGPSLAC	Working Group on Payment Systems for Latin America and the Caribbean
WTI	West Texas Intermediate (crude oil)
Y-O-Y	Year-over-Year

FOREWORD BY THE GOVERNOR



The Bank of Jamaica (BOJ) in 2017 continued to refine its policy operations with the aim of strengthening the transmission of its policy interest rate to market rates. This refinement was in an effort to enhance the effectiveness of monetary policy on the Jamaican economy. Included in this refinement was the transition of the policy interest rate to the overnight deposit rate from the rate paid on the Bank's 30-day Certificate of Deposit on 01 July 2017. Subsequently, this new signal rate was lowered on two occasions by 25 basis points (bps) to 3.50 per cent and 3.25 per cent, in the third and fourth quarters of 2017, respectively. These monetary policy actions reflected the Bank's assessment that inflation would remain within the target of 4.0 per cent to 6.0 per cent over the next two years and were also consistent with the Government's continued strong commitment to fiscal consolidation.

Another significant step that was taken to enhance the effectiveness of monetary policy was the implementation of a rules based multiple–price foreign exchange (FX) intervention framework termed "Bank of Jamaica Foreign Exchange Intervention and Trading Tool" (B–FXITT) in the September 2017 quarter. Additionally, on 25 October 2017, the FX surrender requirement for authorised dealers (ADs) and cambios, under the public sector entity facility, was reduced by 5 percentage points to 20 per cent and 15 per cent, respectively. These steps allow for improved efficiency and allocation as the Bank's intervention are done at a market–determined price that accurately reflects conditions at the time of the operation.

Inflation in 2017 was 5.2 per cent relative to 1.7 per cent for 2016. The higher inflation for the year reflected the impact of supply shocks associated with adverse weather conditions, rising international commodity prices and an uptick in inflation expectations. The Bank's survey of business expectations indicated that inflation expectations remained anchored in the low single digit range, notwithstanding an increase relative to 2016. Demand conditions remained constrained, albeit improving in the second half of the year. In that context, the Jamaican economy grew by an estimated 0.5 per cent in 2017, following an increase of 1.5 per cent in 2016. This deceleration resulted chiefly from a slower pace of growth in the non–tradable industries due to the effect of adverse weather on domestic agriculture production. Notwithstanding this slower growth, domestic demand conditions improved in a context of stronger labour market conditions, increased business confidence and a stable macroeconomic environment. With regard to labour market conditions, the unemployment rate declined to 10.7 per cent, the lowest rate of unemployment for a calendar year since 2009.

In the context of higher international oil prices and the renascent recovery in domestic demand in the second half of the year, Jamaica's current account deficit (CAD) of the balance of payments (BOP) recorded a reversal in the trend improvement that has been evidenced since 2012. Provisional data indicated that Jamaica's CAD deteriorated to 3.0 per cent of GDP in 2017 relative to 1.2 per cent of GDP in 2016. The expansion in the CAD was largely driven by deterioration in the Goods and Services balance, the impact of which was partly offset by improvements on all other sub-accounts. Despite the deterioration in the CAD, the value of the Jamaica Dollar strengthened by 2.8 per cent in 2017 relative to its US dollar counterpart compared to a loss of 6.3 per cent in 2016. The increased value of the domestic currency in 2017 occurred in the context of prepayments of US dollar instruments by the Government and the Bank as well as significant foreign currency earner inflows mainly from the Tourism sector. In the context of adequate inflows, the net international reserves (NIR) of the Bank increased by US$488.9 million to US$3 208.3 million at end-2017, with gross reserves representing 82.8 per cent of the Assessing Reserve Adequacy (ARA) metric and 27 weeks of projected goods and services imports.

In 2017, the Bank continued the work to enhance its processes for the supervision of deposit-taking institutions (DTIs) through the development and implementation of a risk-based methodology informed by emerging supervisory practices internationally, including the Basel Core Principles. The new approach allows for the application of supervisory procedures that are commensurate with the level of risk of the institution. The methodology was completed and successfully piloted with a selected medium-sized DTI. This supervisory approach will be implemented on a phased basis commencing in the first quarter of 2018 and will be integrated into the Bank's consolidated supervision framework. Also, during 2017, the Bank launched the National Financial Inclusion Strategy. This strategy is aimed at increasing the uptake and use of financial products and services by underserved individuals, farmers and micro, small and medium-sized firms. Additionally, the Bank began the process of updating its self-assessment of Jamaica's observance of the Basel Core Principles for Effective Banking Supervision as part of its preparation for the country's next Financial Sector Assessment Programme, to be conducted jointly by the World Bank and the International Monetary Fund (IMF) in 2018. While the total number of licensed DTIs operating in Jamaica remained unchanged at eleven in 2017, there was some re-alignment in the sector. The number of commercial banks increased to eight from six as a building society and a merchant bank were granted banking licenses.

With regard to the health of the banking sector, stress tests conducted by the Bank revealed that DTIs remained largely resilient to macro-prudential stress tests due to continued strong capital positions as well as a generally favourable macroeconomic environment. In particular, stress test results revealed that the average post-shock capital adequacy ratios (CARs) for the banking system generally remained above the 10.0 per cent minimum benchmark, in response to severe but plausible credit, foreign exchange, interest rate and liquidity shocks. In addition, signals from the Bank's macro-financial and micro-prudential indices remained well below crisis thresholds. The DTIs, in particular the commercial banks, performed credibly in response to these hypothetical shocks due to continued improvements in their loan quality during the year.

During 2017, the Bank continued to place special focus on increasing operational efficiency and effectiveness of the human resource function and implementing capacity building strategies in the context of continued staff challenges. Several initiatives were implemented towards increasing the quality of human resource service delivery to include the alignment of processes, technology and the organizational structure. Notably, components of the Bank's recruitment and selection process were reviewed to ensure conformance to best practice. Training and development strategies continued to be focused on developing knowledge, skills and abilities to support existing, new and expanding mandates, as well as shared national responsibilities. The Bank continued to be challenged by the loss of critical skills against the background of the institution's uncompetitiveness in the labour market. In this regard, programmes to build capacity were implemented to fill resource gaps and to ensure the Bank's operations were not severely disrupted. The Bank also engaged in preparation work for a new strategic plan for the period 2018 to 2020.

For the review year, payment system oversight continued to focus on ensuring the safety and efficiency of the national payment system. Critical to this function was the application of risk mitigation measures to the JamClear® Systems and the Automated Clearing House (ACH). Another important risk mitigation strategy was the ACH value threshold of $1.0 million that was used to significantly reduce settlement risk to the safety and security of the National Payment System. Also, a major accomplishment in 2017 was the publication of Jamaica's first Yellow Book, a compilation of national payment and securities settlement information. Additionally, work commenced on the modernization of the JamClear® systems within the context of the changing technological environment, the emerging need for regional payment systems integration and the evolving policy mandate of the Central Bank. The development of the electronic retail payments landscape was further advanced by the Bank's authorization of new functionalities and services being offered by existing Electronic Retail Payment Service (ERPS) providers.

The attainment of the monetary targets under the precautionary Stand-By Arrangement (SBA) programme remained a crucial component of the work of the Bank during 2017 as the Government of Jamaica (GOJ) continued its strong commitment to the economic reform programme initiated in FY2013/14. In this regard, the Executive Board of the IMF in October 2017 completed the second review under the precautionary SBA and reported that the country had successfully met all targets as at end-June 2017. The continuation of this remarkably strong performance recorded to date under the IMF-supported economic programme points to an improving economy where macroeconomic stability is entrenched. This is also reflected in improving equities market, greater exchange rate flexibility and high levels of investor confidence.

The near term outlook for the Jamaican economy continues to be positive. Jamaica's output is projected to grow at a faster rate in 2018 compared to the expansion recorded in 2017 mainly reflecting the impact of on-going structural reforms, improved confidence and increased external and domestic demand. Growth in aggregate spending over the near term is expected to be chiefly driven by an increase in investment spending and net external demand. This forecast assumes expansions primarily in Mining & Quarrying, Agriculture, Forestry & Fishing, Hotels & Restaurants and Manufacturing. Headline inflation in 2018 is forecasted to moderate slightly relative to the rate recorded for 2017 against the background of expected lower cost for domestic agriculture commodities due to recovery in supplies, moderate increases in international commodity prices and weak, albeit improving domestic demand. It is within this context, that the Bank will continue to focus on the maintenance of single digit inflation and the monetary targets outlined under the country's precautionary SBA programme with the IMF.

In closing, I extend thanks to the board members, managers and staff for their continued support and commitment to achieving the objectives of the Bank.

Brian Wynter, CD
Governor

Bank of Jamaica: Role & Function

Bank of Jamaica (BOJ), established by the Bank of Jamaica Act (1960), is responsible for the implementation of sound and consistent monetary policies, while ensuring financial system stability through robust supervisory and regulatory policies. The achievement of these objectives is critical to the attainment of sustainable growth in the Jamaican economy. The two-fold nature of the Bank's operations is captured in its mission statement:

The mission of the Bank of Jamaica is to formulate and implement monetary and regulatory policies to promote price and financial system stability by being a trusted organization with motivated and professional employees working for the benefit of the people of Jamaica.

Bank of Jamaica conducts monetary policy with the long-term aim of achieving inflation in line with that of Jamaica's major trading partners. While the Bank does not yet operate a full-fledged inflation targeting regime, at the beginning of each year, the Minister of Finance announces an inflation target range for the current fiscal year, based on the BOJ's recommendation. In formulating monetary policy to achieve this target, the Bank takes into consideration all prevailing and prospective developments in the macroeconomy, fiscal operations, and the external sector as well as relevant market information. A change in the stance of monetary policy can be reflected in a number of adjustments. These include changes in the rates paid on the Bank's certificates of deposit and adjustments to the liquid asset and cash reserve ratios.

In fulfilling its mandate to maintain financial system stability, the BOJ has supervisory and regulatory oversight of commercial banks and other licensed deposit-taking institutions. The BOJ routinely monitors institutions' compliance with all the relevant legislation and regulations to ensure the highest level of prudence and integrity in the management of such organizations. The Bank's overall responsibility for financial stability is supported by micro- and macro-prudential assessments, which are underpinned by the results from early warning systems and risk models.

The Bank carries out the administration of the Banking Services Act (2014) through its Supervisory Committee (SC). It also undertakes its expanded role of supervisory and financial system stability oversight in collaboration with the Financial Services Commission (FSC) and the Jamaica Deposit Insurance Corporation (JDIC) in the context of the statutory committees called the Financial System Stability Committee (FSSC) and the Financial Regulatory Committee.

The Bank's responsibilities also include:

- oversight of the operation of the payments system and the foreign exchange market;
- the issue and redemption of currency;
- the provision of banking services to the Government and commercial banks as well as fiscal agency services to the Government; and
- management of the external reserves of Jamaica.

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2. The Economy & Monetary Policy Review

2.1. Economic Overview

Bank of Jamaica continued to refine its monetary policy framework in 2017 in order to strengthen the relationship between the policy rate and market interest rates. In this regard, effective 01 July 2017, BOJ transitioned to using the interest rate payable on overnight deposits as the signal rate. This rate was subsequently reduced on two occasions by 25 basis points (bps) to 3.50 per cent and 3.25 per cent, in the third and fourth quarters of 2017, respectively. The lowering of the signal rate reflected the generally favourable outlook for inflation over the near- to medium-term amidst continuing improved macroeconomic fundamentals. In keeping with the policy rate reduction, the rate on the Bank's Standing Liquidity Facility was reduced by 100 bps to 6.25 per cent, thereby maintaining the width of the interest rate corridor at 3.0 percentage points. Bank of Jamaica continued to offer 30-day certificates of deposit (the previous signal rate) to primary dealers and deposit-taking institutions (DTIs) but in fixed volumes by competitive multiple-price auctions.

In July 2017, the Bank also took steps to enhance the effectiveness of monetary policy by modernizing Jamaica's foreign exchange market. These actions included the implementation of a rules based multiple-price foreign exchange (FX) intervention framework termed "Bank of Jamaica Foreign Exchange Intervention and Trading Tool" (B-FXITT). In support of the B-FXITT, the Bank introduced the publication of mid-day rates for the four major currencies traded in the local market (USD, CAD, GBP and Euro) on its website. This mid-day rate was subsequently used as the settlement rate for the FX surrender requirement of all authorized dealers (AD) and cambios. In conjunction with B-FXITT, the FX surrender requirement for ADs and cambios under the public sector entity facility was reduced by 5 percentage points to 20 per cent and 15 per cent, respectively.

During the year, the Bank continued to raise the cash reserve for DTI's foreign currency prescribed liabilities in incremental steps. The FX liquid asset requirement was also increased. These adjustments were intended to curb the growing trend in dollarization. The Bank continued to manage Jamaica Dollar liquidity through issues of regular sterilization instruments and repurchase operations.

Headline inflation, as measured by the annual point-to-point change in the All Jamaica Consumer Price Index (CPI), was 5.2 per cent for 2017 relative to 1.7 per cent for 2016. The acceleration in inflation for 2017 reflected the impact of supply shocks associated with adverse weather conditions, rising international commodity prices and an uptick in inflation expectations. Demand conditions remained constrained, albeit improving in the second half of the year. Notwithstanding the increase in inflation expectations, the Bank's survey of business expectations indicated that inflation expectations remained anchored in the low single digit range.

The Jamaican economy grew by an estimated 0.5 per cent in 2017, following an increase of 1.5 per cent in 2016. This deceleration resulted chiefly from a slower pace of growth in the non-tradable industries due to the effect of adverse weather on domestic agriculture production. Notwithstanding the slower growth, domestic demand conditions improved in a context of stronger labour market conditions, increased business confidence and a stable macroeconomic environment.

With regard to labour market conditions, the unemployment rate declined by 1.5 percentage points to an average of 11.7 per cent for 2017, relative to the previous year. This outturn was the lowest rate of unemployment for a calendar year since 2009. The decline in the unemployment rate reflected growth of 2.3 per cent in employment which outweighed expansion of 0.5 per cent in the labour force.

The Bank's more accommodative monetary policy stance continued to support growth in credit to the private sector. Annual growth in private sector financing (including domestic and foreign currency denominated loans) in DTIs was 11.4 per cent as at October 2017. This reflected a moderation relative to the increase of 13.8 per cent for the similar period in 2016 and was marginally below the average growth of 11.7 per cent for the previous five years. The moderation mainly resulted from the greater use of corporate bonds issued via exempt distribution. Credit growth in DTIs was primarily underpinned by the performance of commercial banks' credit to the private sector which increased by 37.3 per cent as at October 2017. This outturn was stronger than the expansion of 13.8 per cent for the same period in 2016. The significant acceleration primarily reflected the impact of two new entrants to the commercial banking sector in the March and September 2017 quarters. Excluding the impact of these institutions, private sector credit grew by 13.9 per cent for the calendar year to October.

Growth in foreign currency loans to the private sector accelerated to 19.6 per cent for the review period, compared to 0.5 per cent for 2016. This acceleration was primarily reflected in business loans, mainly underpinned by an expansion in loans to the manufacturing sector of 119.2 per cent. Excluding the impact of the new entrants, foreign currency loans and advances to the private sector grew by 11.6 per cent. The growth in foreign currency loans occurred in the context of an appreciation in the Jamaica Dollar vis-à-vis the US dollar (USD), which shifted the incentive to borrowing in foreign currency.

The exchange rate appreciated by 2.8 per cent in 2017 compared to depreciation of 6.3 per cent in 2016. This appreciation was due mainly to buoyant USD supplies which offset the impact of periodic bouts of heightened demand, particularly during the first three quarters of the year. Increased USD supplies primarily emanated from the Government of Jamaica's (GOJ) USD liability management exercise, unprecedented tourism inflows, as well as the structural reforms aimed at deepening the foreign exchange market. Against this background, there was an overall reduction in the Bank's intervention sales to US$594.9 million from US$870.2 million in 2016. The Jamaica Dollar depreciated against both the Canadian dollar and Great Britain Pound by 1.6 per cent and 5.8 per cent, respectively, in 2017.

Consistent with generally favourable macroeconomic conditions and the accommodative monetary policy stance of the Bank, there was a general decrease in interest rates on Treasury Bills (T-Bills). Specifically, the weighted average yields on GOJ 90-day, 180-day and 270-day T-Bills decreased by 150 bps, 193 bps and 129 bps to 4.18 per cent, 4.63 per cent and 5.45 per cent, respectively. Similar to the outturn for the GOJ T-Bills, there were declines in the monthly averages of the private money market rates for the year.

In the context of higher international oil prices and the renascent recovery in domestic demand in the second half of the year, the current account deficit of Jamaica's balance of payments deteriorated in 2017. This followed five consecutive years of improvement. Provisional data indicate that Jamaica's current account deficit worsened to 3.0 per cent of GDP relative to 1.2 per cent of GDP in 2016. The deterioration was largely underpinned by an increase in spending on imports. This impact was partly offset by higher travel and remittance inflows as well as a reduction in profit repatriation by direct investment companies. A surplus on the Financial Account was sufficient to finance the deficits on the Capital and Current Accounts. Consequently, the net international reserves (NIR) of the Bank increased by US$488.9 million to US$3 208.3 million at end-2017. Gross reserves amounted to US$3 781.2 million and represented 82.8 per cent of the Assessing Reserve Adequacy (ARA) metric. In addition, gross reserves represented 27.0 weeks of projected goods and services imports at end-2017 relative to 24.7 weeks at end-2016.

The Government of Jamaica, throughout 2017, remained firmly committed to the high standard of fiscal management outlined in the fiscal rules. To that end, information as at end-2017 indicated that the Government was on track to achieve its targets under the 3-year precautionary Stand-By Arrangement (SBA) with the International Monetary Fund. In particular, the primary balance target for the Central Government and the overall balance of the public sector were attained at end-2017. Central Government operations for April-December 2017 resulted in a fiscal deficit of 0.4 per cent of GDP, which was below the budgeted deficit of 1.6 per cent. This resulted from Revenue & Grants being above budget while Expenditure was below budget.

The general improvement in the domestic economy was also reflected in increased buoyancy in the local equities market. For 2017, all five indices of the Jamaica Stock Exchange (JSE) increased, four of which expanded at a faster pace in comparison to 2016. Specifically, the JSE Main Index increased by 50.0 per cent for 2017, following an increase of 27.6 per cent for the previous year. The continued strong performance of the JSE indices occurred against the background of improvements in investor appetite for equities. The relative attraction of equities was influenced by positive developments in the macroeconomy which included growth in real economic activity, low inflation, improved liquidity conditions as well as the successful performance to date under the precautionary SBA by the Government of Jamaica with the IMF. Higher profits by large corporations, new listings, as well as announcements of stocks splits, rights issues and bonus issues also contributed to the favourable performance of equity prices.

Jamaica's economy is projected to grow in 2018 at a faster rate than the expansion recorded in 2017 largely reflecting increased capacity utilisation in the mining industry, recovery in the agriculture sector and the impact of on-going structural reforms. In addition, the global economy is projected to expand by 3.5 per cent in 2018 relative to 3.4 per cent in 2017. Notably, growth is expected to accelerate in the United States of America (USA), Jamaica's main trading partner, due mainly to expansionary fiscal policies.

In the context of improving domestic capacity, moderate increases in imported commodity prices and low inflation expectations, headline inflation is expected to moderate in 2018 relative to the 5.2 per cent recorded in 2017. Against this background, the Bank will continue to focus on the maintenance of single digit inflation and the monetary targets outlined under the country's precautionary SBA with the IMF.

2.2. International Economic Developments

2.2.1. Overview

Global economic growth accelerated in 2017 in the context of recovery in trade, investment and manufacturing activity. This expansion mainly reflected the impact of improving financial conditions, rising confidence and increases in commodity prices. Growth in GDP accelerated for both Advanced Economies (AEs) and Emerging Markets & Developing Economies (EMDEs). In particular, a stronger pace of expansion was evidenced in the USA, Japan and the Euro Area. For the EMDEs, growth was positively impacted by a surge in commodity prices which contributed to recovery in Brazil, Argentina and Ecuador.

In the context of the strengthening economic performance and rising inflation, central banks in AEs tightened monetary policy.

For 2017, there was higher inflation for the AEs while EMDEs recorded lower inflation. The rise in inflation across AEs primarily reflected the impact of improving global demand and higher commodity prices during the year.

The USD, as measured by the Bloomberg Dollar Spot Index, depreciated for 2017.[1] The general weak performance of the USD relative to select international currencies reflected adverse investor sentiment about the US tax reform bill and stronger economic performance in a number of AEs and EMDEs.

2.2.2. Output

Global economic growth is estimated to have accelerated to 3.4 per cent for 2017 from 3.2 per cent for 2016. This estimate is underpinned by stronger growth for both AEs and EMDEs. Growth among the

[1] The Bloomberg Dollar Spot Index tracks the performance of a basket of ten leading global currencies versus the US dollar.

AEs accelerated to 2.3 per cent from 1.7 per cent for 2016, while EMDEs grew by 4.7 per cent in 2017 relative to 4.4 per cent in 2016 (see **Tables 1** and **2**).

Table 1

INDUSTRIAL ECONOMIES Real GDP, Consumer Prices and Unemployment Rates (Annual percentage change and per cent of labour force)								
Country	**GDP†**		**Unemployment Rate**		**Inflation Rate****		**CB Target Interest Rates*****	
	2016	**2017***	**2016**	**2017***	**2016**	**2017***	**2016**	**2017***
Advanced Economies	1.7	2.3	6.2	5.7	0.8	1.7	n/a	n/a
of which								
USA	1.5	2.3	4.9	4.1	1.3	2.1	0.5 - 0.75	1.25 - 1.50
UK	1.9	1.7	4.9	4.4	0.7	2.6	0.25	0.50
Euro Area	1.8	2.4	8.7	7.9	0.2	1.5	0.00	0.00
Canada	1.4	3.0	7.0	6.5	1.4	1.6	0.50	1.00
Japan	0.9	1.8	3.1	2.9	-0.1	0.4	-0.10	-0.10

Source: IMF World Economic Outlook (WEO) Update: October 2017, January 2018

† January 2018 WEO **Estimates* *** Annual average* **** End-of-period*

Among the AEs, growth in the US economy accelerated to 2.3 per cent in 2017 from 1.5 per cent in 2016. This acceleration mainly reflected higher private investment as a result of a weakening USD as well as robust growth in demand from its trading partners. Notwithstanding moderate wage growth, consumption spending also remained strong throughout the year. In the context of the growth of the US economy, the unemployment rate was 4.1 per cent at end December 2017, the lowest level since December 2000.

In the Euro Area, growth accelerated to 2.4 per cent in 2017 from 1.8 per cent in 2016. The faster growth was underpinned by stronger expansion in export as well as increased domestic demand. Improvements in financial conditions as well as a dissipation in political risks also supported growth for the year.[2]

Growth in Japan accelerated to 1.8 per cent for 2017 from 0.9 per cent in 2016. This faster pace of growth was largely attributed to the gradual recovery in consumer spending, investment, increased government spending as well as a surge in exports.[3]

Canada's growth is estimated to have accelerated to 3.0 per cent in 2017 from 1.4 per cent in 2016. The stronger growth in 2017 reflected the impact of reduced drag from oil and gas prices, strong consumer spending and increased residential investment.

In contrast, growth in the United Kingdom (UK) slowed to 1.7 per cent in 2017 from 1.9 per cent in 2016. The deceleration was mainly influenced by a slower pace of growth in private consumption as the depreciation of the Great Britain Pound (GBP) depressed household's real income.

Table 2

SELECTED DEVELOPING COUNTRIES REAL GDP & CONSUMER PRICES (Annual per cent change)				
Country	**GDP**		**Inflation Rate****	
	2016	**2017***	**2016**	**2017***
Emerging and Developing Economies†	**4.4**	**4.7**	**4.3**	**4.2**
Latin America and the Caribbean†	**-0.7**	**1.3**	**5.6**	**4.2**
Argentina	-2.2	2.5	39.4	26.9
Brazil†	-3.5	1.1	8.7	3.7
Chile	1.6	1.4	3.8	2.3
Colombia	2.0	1.7	7.5	4.3
Dominican Republic	6.6	4.8	1.6	3.0
Ecuador	-1.5	0.2	1.7	0.7
Mexico†	2.9	2.0	2.8	5.9
Peru	4.0	2.7	3.6	3.2
Uruguay	1.5	3.5	9.6	6.1
Venezuela	-16.5	-12.0	254.4	652.7
Caribbean***	**3.4**	**2.8**	**2.6**	**3.8**
Antigua & Barbuda	5.3	2.7	-0.5	2.4
Barbados	1.6	0.9	1.3	5.0
Dominica	2.6	3.9	0.0	0.6
Guyana	3.3	3.5	0.8	2.3
Jamaica****	1.3	1.7	2.4	4.4
St. Kitts & Nevis	3.1	2.7	-0.4	1.2
St. Vincent & Grenadines	0.8	2.2	-0.2	1.7
Trinidad & Tobago	-5.4	-3.2	3.1	3.2
Developing Asia	**6.4**	**6.5**	**2.8**	**2.6**
China†	6.7	6.8	2.0	1.8
India†	7.1	6.7	4.5	3.8
Indonesia	5.0	5.2	3.5	4.0
Malaysia	4.2	5.4	2.1	3.8
Philippines	6.9	6.6	1.8	3.1
Thailand	3.2	3.7	0.2	0.6
Middle East and North Africa	**5.1**	**2.0**	**5.4**	**7.1**

Sources: The World Economic Outlook Update, October 2017; January 2018, statistical offices of individual countries,

*† January 2018 WEO (GDP figures only), *Estimates, **Annual average, ***GDP weighted, **** Inflation represents actual data*

With regard to economic growth in the EMDEs, the Chinese economy expanded by 6.8 per cent in 2017, relative to the 6.7 per cent recorded in 2016. Growth, which was reflected in improvement in exports, was supported by the introduction of reforms geared towards controlling financial risks and reducing macroeconomic disparities. Commodity exporters also benefited from a rebound in prices.

[2] Political risks surrounded the possible election of populist parties in France, Spain and the Netherlands.

[3] Canada was the fastest growing economy of the Group of Seven (G7) leading industrial countries during 2017. The G7 is an informal bloc of industrialized democracies--the United States, Canada, France, Germany, Italy, Japan and the United Kingdom.

Following two years of contraction, the Brazilian economy is estimated to have grown by 1.1 per cent in 2017. This was largely attributed to lower inflation and interest rates which spurred consumer spending. Growth in the Latin America and Caribbean region is estimated to be 1.3 per cent for 2017, when compared to the contraction of 0.7 per cent for the previous year.

2.2.3. Inflation

AEs recorded higher inflation in 2017 while EMDEs reflected lower inflation. Specifically, inflation among the AEs accelerated to 1.7 per cent in 2017 from 0.8 per cent in the previous year. In the latter part of the year, increases in crude oil prices contributed to faster inflation for major economies. Additionally, robust economic growth and strong consumer spending supported higher prices in the USA and Canada. For the UK, inflationary pressures were underpinned by continued depreciation of the GBP.

For the EMDEs, inflation decelerated to 4.2 per cent from 4.3 per cent in 2016. The deceleration was primarily driven by a fall in energy prices for most of the year. However, there was an overall increase in commodity prices for the year. Of note, inflation in Venezuela continued to accelerate rapidly as a result of deteriorating economic conditions in the economy (see Table 2).

2.2.4. Monetary Policy

Given the acceleration in economic growth and rising inflation in the year, central banks in a number of AEs pursued tighter monetary policy. Notably, the Federal Open Market Committee (FOMC) increased the US Federal Funds target rate by 75 basis points (bps) to a range of 1.25 per cent to 1.50 per cent in 2017.[4] In addition, at the 13 December 2017 meeting, members of the FOMC confirmed that the Federal Reserve would begin unwinding its balance sheet in 2018.

On 02 November 2017, the Bank of England (BOE) raised its key policy rate by 25 bps to 0.50 per cent, which was the first interest rate increase since July 2007. All members of the BOE's Monetary Policy Committee agreed that any future increases would be limited and done gradually.

The Bank of Canada increased its target interest rate by 50 bps to 1.00 per cent in 2017.[5] The Bank cited that recent economic data were stronger than anticipated with consumer spending remaining robust. There was also more widespread strength in business investment and exports.

With regard to EMDEs, particularly in the largest emerging economy in Europe, the Bank of Russia reduced its key interest rate six times in 2017. In this regard, the rate ended the year at 7.75 per cent relative to 10.00 per cent at end–2016. The central bank's decision was guided by the fact that inflation continued to undershoot its inflation target of 4.0 per cent. Furthermore the central bank noted that there will be a gradual transition to neutral monetary policy and further reductions may be announced in the first half of 2018.

Notably in Latin America, Banco de Mexico increased its key interest rate by 100 bps to 7.25 per cent, the highest level in nine years. The central bank underscored that it was willing to continue increasing its overnight interbank funding rate in 2018 in order to subdue price pressures.

2.2.5. Selected Exchange Rates

The performance of select international currencies against the USD was mixed in 2017. In particular, the Canadian Dollar (CAD) and the Euro each appreciated by 2.1 per cent while the Brazilian Real and the Indian Rupee appreciated by 8.6 per cent and 3.2 per cent, respectively (see Table 3). The general weakness in the USD against selected currencies reflected investor uncertainty about the passing of the US tax reform bill and the possible magnitude of its impact on economic growth.[6] In addition, the weaker USD was largely attributed to stronger than expected economic

[4] The FOMC increased interest rates by 25 bps in March, June and December 2017.

[5] The Bank of Canada increased its benchmark interest rate in July and September 2017.

[6] This deterioration in market confidence also followed the failure of the Trump Administration to make significant progress on the Health Care Bill earlier in 2017.

performance in major economies, particularly Canada and the Euro area. The strengthening of the Brazilian Real against the USD in 2017 occurred in the context of an increase in consumer confidence following the impeachment of the former President Dilma Rousseff and improvements in commodity prices.

The GBP, Japanese Yen, Chinese Yuan and the Mexican Peso depreciated against the USD by 4.9 per cent, 3.3 per cent, 1.6 per cent and 1.2 per cent, respectively (see Table 3). Of note, during the latter part of 2017 the USD strengthened following the publication of data which showed strong economic growth and robust retail sales as well as the subsequent passing of the Tax Cuts and Jobs Act.

Table 3

Selected Economies: Exchange Rates (Annual Average)

	US Dollars per Unit of National Currency		Annual per cent change	
	2016	2017	2016	2017
Canadian Dollar	0.76	0.77	-3.6	2.1
Japanese Yen[1]	108.50	112.12	-10.3	3.3
Great Britain Pound	1.36	1.29	-11.3	-4.9
Euro	1.11	1.13	-0.3	2.1
Real	0.29	0.31	-5.0	8.6
Yuan	0.15	0.15	-5.4	-1.6
Mexican Peso	0.05	0.05	-15.1	-1.2
Rupee	0.01	0.02	-4.5	3.2

Source: Bloomberg

1/ Expressed as local currency per unit of US dollars (in accordance with international convention)

Against this background, the Bloomberg Dollar Spot Index depreciated by 8.5 per cent in 2017 relative to an appreciation of 2.8 per cent in 2016.

2.2.6. Commodity Markets

The IMF's Index of Primary Commodity Prices (IPCP) increased by 12.3 per cent in 2017, following a reduction of 10.0 per cent in 2016 (see Table 4). The rebound in IPCP was attributed to increases of 7.1 per cent and 17.3 per cent in the Non-fuel Commodities and Energy indices, respectively. Within the Non-fuel Commodities index, the Industrial Inputs Price and the Edibles sub-indices rose by 13.1 per cent and 2.3 per cent, respectively. The increase in Industrial Inputs reflected higher prices for Agricultural Raw Materials and Metals, while the expansion in Edibles was supported by higher Food prices with offsetting impulses from Beverage prices.[7]

Table 4

SUMMARY OF WORLD COMMODITY PRICES
Annual per cent change

	2016	2017[1]
All Primary Commodities	**- 10.0**	**12.3**
1. Non-fuel Commodities	- 1.8	7.1
1.1 Edibles	1.3	2.3
(a) Food	2.1	3.6
(b) Beverages	- 5.0	- 8.7
1.2 Industrial Inputs	- 5.5	13.1
(a) Agricultural Raw Materials	- 5.7	2.1
(b) Metals	- 5.4	20.6
2. Energy	- 16.5	17.3
Petroleum[2]	- 15.7	17.4
(a) WTI	- 11.3	13.4
(b) Brent	- 15.9	16.7
(c) Dubai	- 19.5	22.3

Source: IMF

1/ Provisional

2/ Simple Average of West Texas Intermediate (WTI), Brent and Dubai Fateh Crude oil prices

Upward price movements in Food largely reflected increases in the prices of bananas and vegetable oils.[8] The decline in the Beverages sub-index reflected a fall of 29.8 per cent in the price of cocoa beans. Of note, cocoa prices fell to the lowest level since 2006. The continued decline in cocoa prices during 2017 was attributed to strong production in West Africa, which contributed to a global surplus.

With respect to the Metals sub-index, there were higher prices for copper, aluminium and nickel. Of note, aluminium prices increased by 22.7 per cent in 2017 relative to a decline of 3.6 per cent in 2016. This increase largely reflected the impact of China's efforts to curb surplus production capacity and limit industrial pollution in the second half of 2017.[9]

7 Agricultural raw materials include timber, cotton, wool, rubber and hides.

8 Vegetable oils include soybean and palm oils.

9 There was some upward pressures on aluminum prices during the start of the year in the context of investors' speculation that the US Administration's infrastructure programme would lead to a boost in demand.

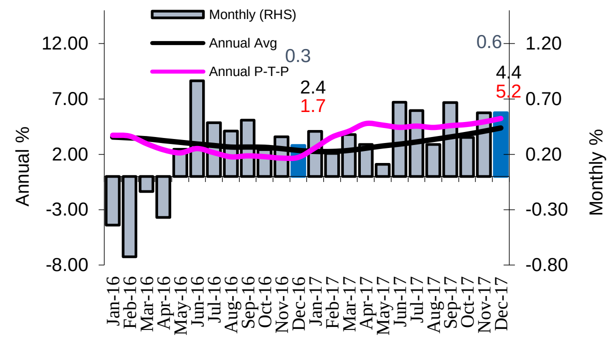
The increase in the Energy index in 2017 was a rebound from the decline in 2016 and occurred in the context of: (i) improving demand, (ii) falling US crude inventories, (iii) supply disruptions, (iv) rising geopolitical tensions throughout the Middle East and (v) the implementation and subsequent extension of the deal by the Organization of Petroleum Exporting Countries (OPEC) and other major producers, led by Russia, to limit crude oil production to end-2018. Despite the overall rise in crude oil prices, there was a decline between January and September, largely reflecting higher production in the USA, Libya and Nigeria.[10] The three benchmark crude oil prices, the Dubai, Brent and West Texas Intermediate (WTI) increased by 22.3 per cent, 16.7 per cent and 13.4 per cent, respectively.

2.3 Prices

2.3.1. Overview

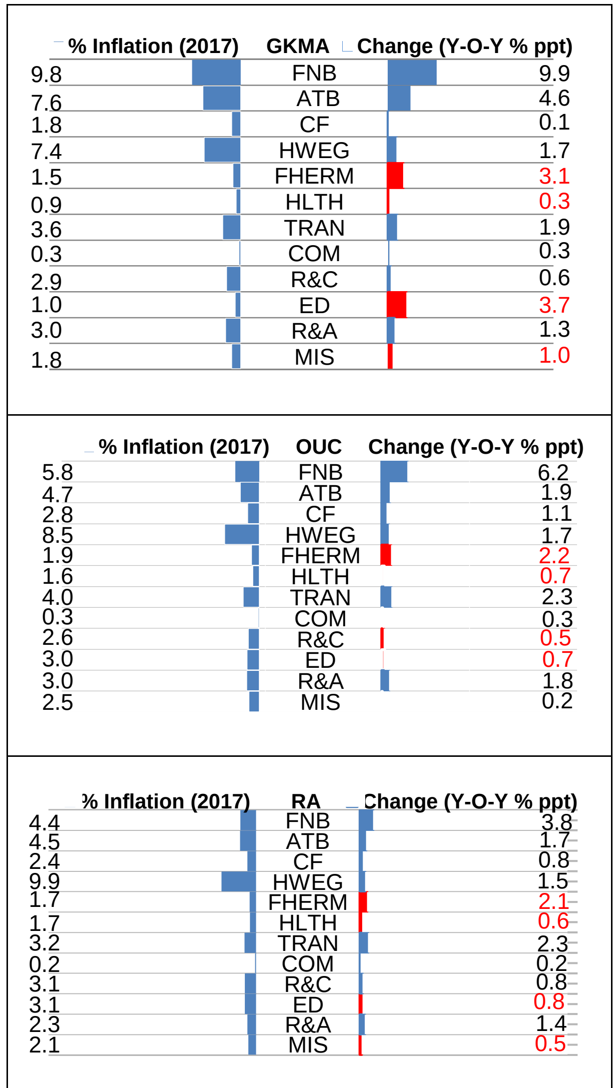
Headline inflation, as measured by the annual point-to-point change in the All Jamaica Consumer Price Index (CPI), was 5.2 per cent for 2017 relative to 1.7 per cent for 2016 (see **Chart 1** and **Appendix A**). The acceleration in inflation for the review year chiefly reflected the impact of supply shocks to domestic agricultural production associated with adverse weather conditions, rising international commodity prices and an increase in inflation expectations when compared to the previous year. The inflation outturn also reflected the impact of improved domestic demand conditions, particularly towards the latter half of the year. Inflationary impulses during the year largely emanated from a rise in the cost of non-processed food and higher utility rates due to increased energy costs. Additional inflationary impulses stemmed from higher costs for transportation and alcoholic beverages, mainly due to the impact of revenue measures.

Chart 1: Headline Inflation



Source: STATIN

Chart 2: Annual Inflation & Y-O-Y Change by Region



Blue bars = positive and Red bars = negative

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[10] Libya and Nigeria were previously exempt from cutting production due to internal strife. However, both OPEC member countries agreed not to increase their output above 2017 levels through 2018.

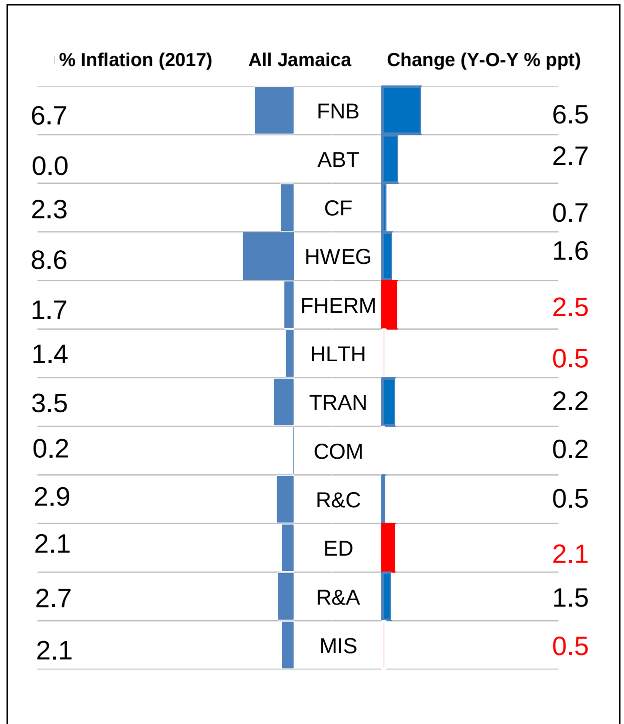
Two of the three measures of core inflation monitored by the Bank were higher in 2017 relative to 2016. The rate of annual change in the CPI-AF and the TRIM were 2.6 per cent and 2.5 per cent, respectively, compared to outturns of 2.3 per cent and 0.7 per cent in 2016. The rate of change in the CPI-FF, however, remained constant at 2.3 per cent in 2017, compared to the previous year. The higher levels of core inflation largely reflected the impact of improved demand conditions relative to 2016.

For 2017, all regions recorded acceleration in inflation. The Greater Kingston Metropolitan Area (GKMA), Other Urban Centres (OUC) and Rural Areas (RA) recorded inflation of 6.7 per cent, 5.0 per cent and 4.2 per cent, respectively. In 2016 inflation in GKMA, OUC and RA was 1.6 per cent, 1.6 per cent and 1.9 per cent, respectively (see Chart 2 and Appendix A).

2.3.2. Component and Contributing Factors to Inflation

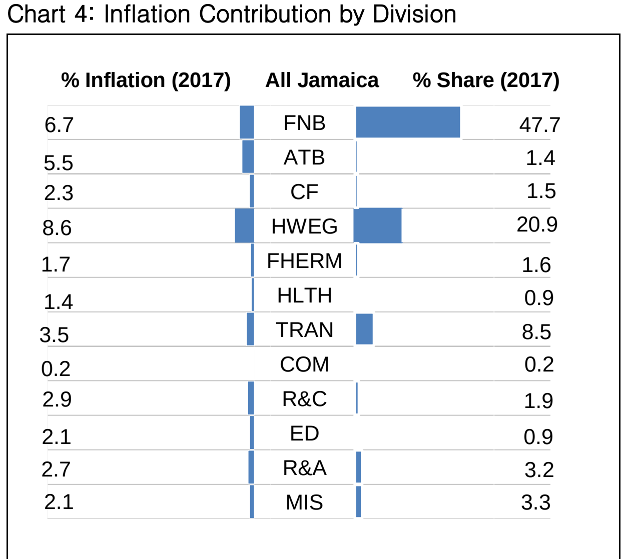
With the exception of Furnishings, Household Equipment & Routine Household Maintenance (FHERM), Miscellaneous Goods & Services (MIS), Health (HLTH) and Education (ED), all divisions recorded higher levels of inflation in 2017 relative to 2016 (see Chart 3 and Appendix A). The main contributors to inflation in 2017 were Food & Non-Alcoholic Beverages (FNB), Housing, Water, Electricity, Gas & Other Fuels (HWEG) and Transport (TRAN). The increase in HWEG mainly emanated from upward movements in the cost of energy as well as depreciation in the average exchange rate, the impact of which was reflected largely in higher prices for electricity and water. With respect to the upward movement in FNB, this was mainly attributed to higher prices for domestic agriculture commodities due to adverse rainfall during the periods of May/June and October/November that disrupted domestic agricultural crop production. The higher TRAN primarily resulted from a rise in petrol prices. For FHERM, the moderation resulted from decelerations in the rate of price increases for household maintenance and appliances. For 2017, FNB, HWEG and TRAN contributed approximately 48.0 per cent, 21.0 per cent and 9.0 per cent, respectively, to the overall annual inflation (see Chart 4).

Chart 3: Annual Inflation 2017



Blue bars = positive and Red bars = negative
MIS= Miscellaneous Goods & Services, R&A=Restaurants & Accommodation, ED=Education, R&C=Recreation & Culture, COM=Communication, TRAN= Transport, HLTH=Health, FHERM=Furniture, Household Equipment & Routine Household Maintenance, HWEG=Housing, Water, Electricity, Gas & Other Fuels, C&F=Clothing & Footwear, ABT=Alcohol, Beverages & Tobacco, FNB=Food & Non-Alcoholic Beverages

Chart 4: Inflation Contribution by Division

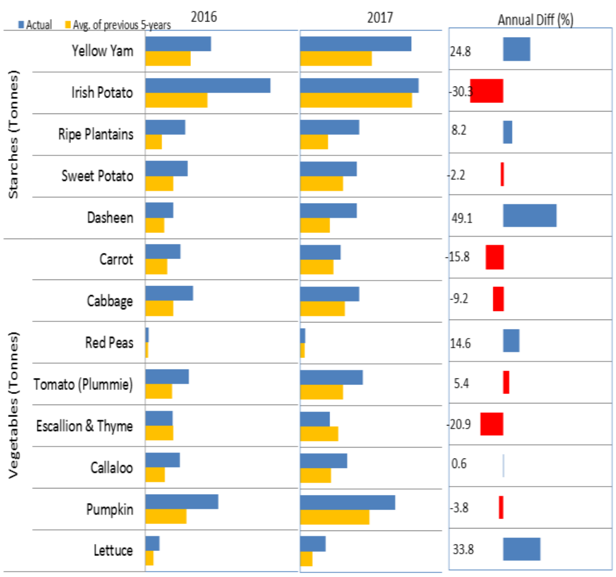


Blue bars = positive and Red bars = negative
MIS= Miscellaneous Goods & Services, R&A=Restaurants & Accommodation, ED=Education, R&C=Recreation & Culture, COM=Communication, TRAN= Transport, HLTH=Health, FHERM=Furniture, Household Equipment & Routine Household Maintenance, HWEG=Housing, Water, Electricity, Gas & Other Fuels, C&F=Clothing & Footwear, ABT=Alcohol, Beverages & Tobacco, FNB=Food & Non-Alcoholic Beverages

2.3.3. Domestic Agriculture Supply

The significant acceleration in inflation in FNB reflected increases in raw food prices emanating from reduced domestic agricultural production in the context of unfavourable weather conditions (see Appendix A and Chart 5). The lower production was primarily observed during the second half of the year (see Production). Consequently, for 2017, *vegetables & starchy foods* increased by approximately 17.0 per cent relative to a decline of 6.7 per cent in 2016.

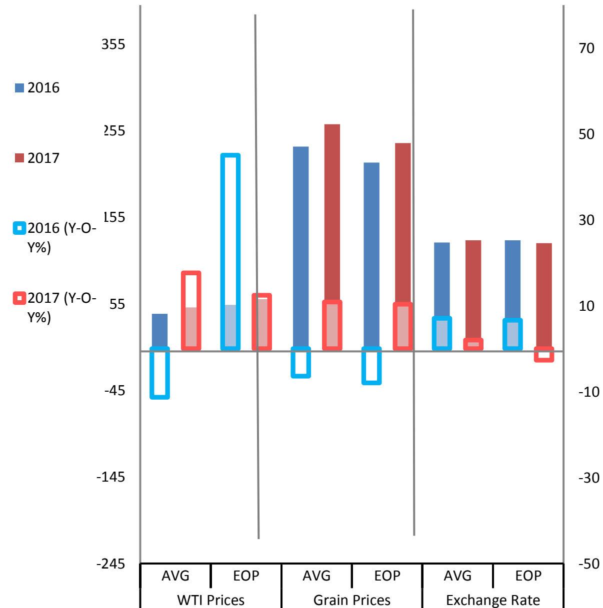
Chart 5: Average Supplies of Agriculture Produce (2015 – 2016)



2.3.4. Imported Inflation

Imported inflation accelerated during the year in response to an increase in average energy prices, depreciation in the average exchange rate and higher international grain prices. Higher energy prices largely reflected an increase in international crude oil prices which contributed to inflationary impulses within HWEG and TRAN. The increase in grain prices reflected a moderation in global supplies as a result of adverse weather conditions affecting several markets. This had an inflationary effect on processed food prices within FNB (see Section 2.2 International Economic Developments).

Chart 6: Trends in WTI Crude Oil Price, BOJ Grains Index and Exchange Rate



	WTI Prices AVG	WTI Prices EOP	Grain Prices AVG	Grain Prices EOP	Exchange Rate AVG	Exchange Rate EOP
2016	43.3	53.7	236.4	218.2	125.8	128.4
2017	51.0	60.4	262.2	240.7	128.3	125.0
2016 (Y-O-Y%)	-11.3	45.0	-6.4	-7.9	7.1	6.7
2017 (Y-O-Y%)	17.7	12.5	10.9	10.3	2.0	-2.7

Source: Bloomberg & BOJ

2.3.5. Administered and Other Price Adjustments

There were several notable administered price adjustments during the review year. The Incorporated Master Builders Association of Jamaica granted a wage increase of 7.0 per cent in February 2017. Additionally, tax measures during the period included increases of approximately 5.6 per cent, 21.4 per cent and 2.2 per cent in Special Consumption Tax (SCT) on fuel, cigarettes and alcohol. Furthermore, the threshold on which General Consumption Tax is applied to electricity consumption was reduced to 150 kWh from 350 kWh. A myriad of fees and licenses associated with the operation of a motor vehicle was increased by 20.0 per cent.

Chart 7: Domestic Demand Indicators

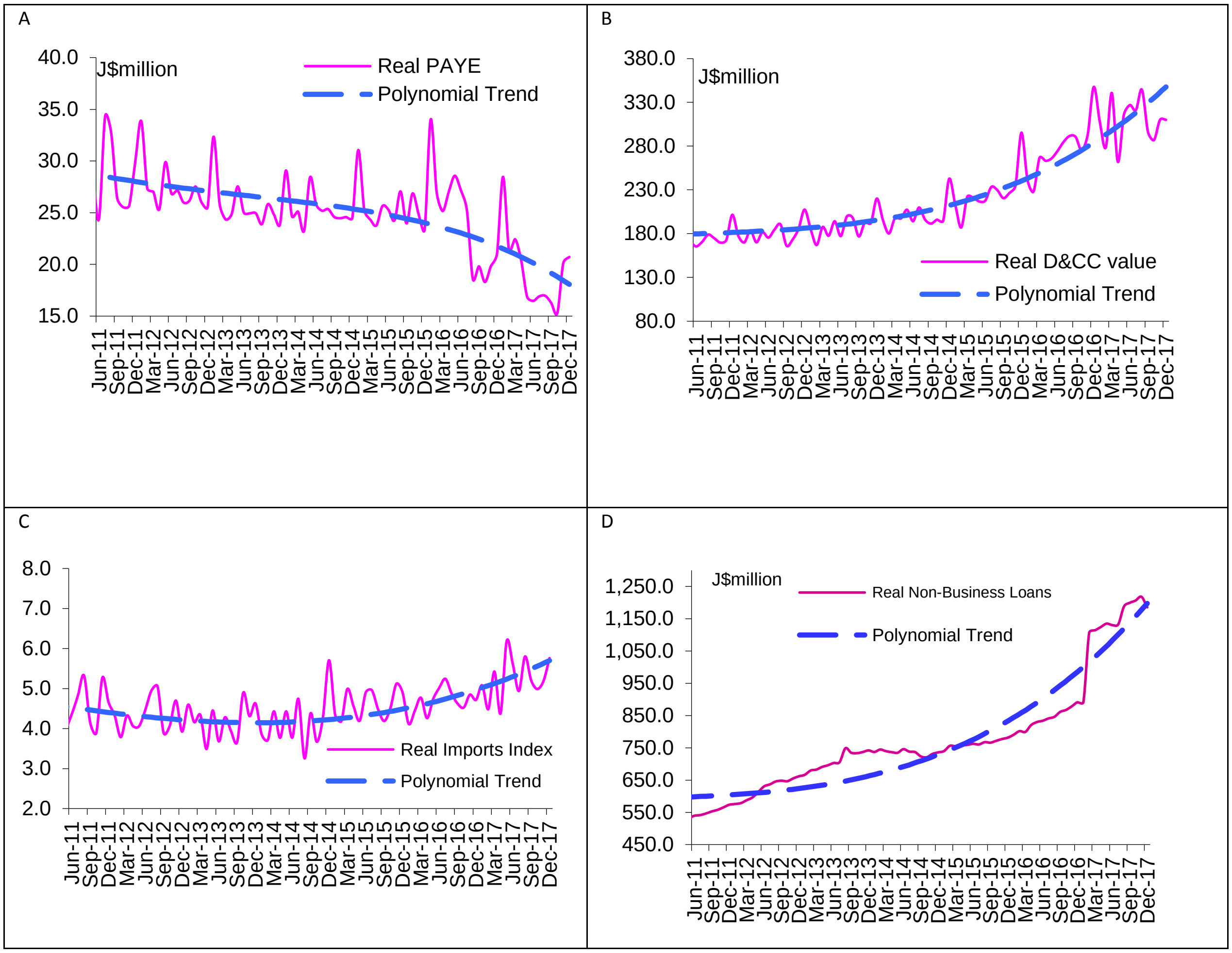
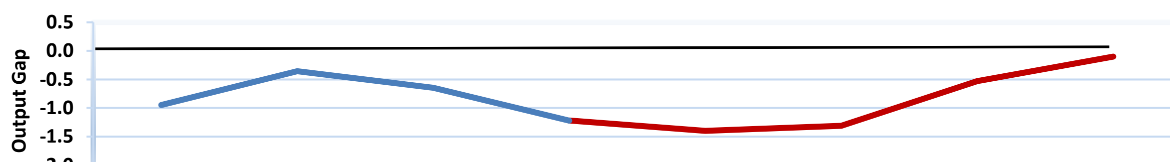


Chart 8: Trends in Domestic Output Gap for 2016 and 2017



	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
Output Gap	-0.9	-0.4	-0.6	-1.2	-1.4	-1.3	-0.5	-0.1

2.3.6. Demand and Supply Conditions

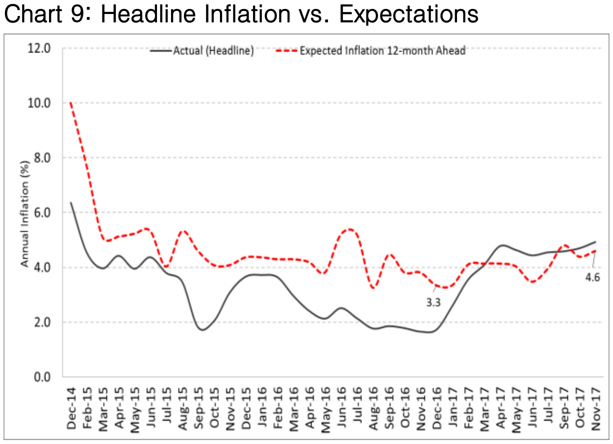
The trends in short-term indicators of domestic demand were mixed for 2017. For the review year, it is estimated that the real total imports index and non-business loans expanded by 12.2 per cent and 35.5 per cent, respectively, compared to increases of 1.5 per cent and 9.9 per cent in the previous year. However, real PAYE receipts fell by 1.4 per cent following a decline of 10.1 per cent in 2016. The lowering of the income tax threshold by the government continued to influence the decline in PAYE. Real debit & credit card transactions increased by 8.4 per cent, slowing from the expansion of 17.7 per cent in 2016.

During 2017, the output gap narrowed as output grew at a faster rate than potential, particularly in the latter half of the year (see **Chart 8**). Despite the reduction in excess capacity among industrial suppliers, continued fiscal consolidation assisted in restraining upward price adjustments during the year.

2.3.7 Inflation Expectations

The Survey of Businesses' Inflation Expectations indicated that at end-November 2017 the expected 12-month ahead annual inflation among businesses was 4.6 per cent, an acceleration relative to the 3.3 per cent at November 2016 (see **Chart 9**). Notwithstanding the uptick, the expected inflation was generally in line with the Bank's medium term inflation target of 4.0 per cent to 6.0 per cent.

Chart 9: Headline Inflation vs. Expectations



Source: BOJ

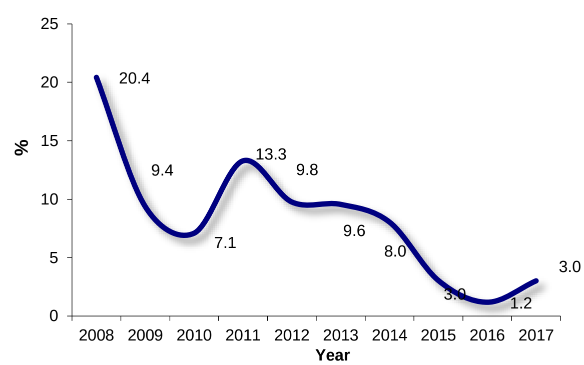
2.4 Balance of Payments

2.4.1. Overview

Provisional data indicate that Jamaica's current account deficit (CAD) deteriorated by US$276.7 million to US$442.7 million (3.0 per cent of GDP) in 2017 relative to US$166.0 million (1.2 per cent of GDP) in 2016 (see **Chart 10** and **Table 5**). The outturn marked a reversal in the trend improvement since 2012. The expansion in the CAD was largely driven by deterioration in the *Goods and Services* balance, the impact of which was partly offset by improvements on all other sub-accounts. Largely underpinning the worsening in the *Goods & Services* balance was a higher deficit on the *Goods* balance due to an increase in imports. In contrast, an improvement was noted on the *Services* sub-account in the context of higher tourism earnings. The decline in the deficit on the *Income* sub-account was related to lower profit repatriation by direct investment companies while the larger surplus on the *Current Transfers* sub-account was due to growth in remittance inflows.

In the context of higher official capital inflows, the NIR of the Bank increased by US$488.9 million to US$3 208.3 million at end-2017. Gross reserves amounted to US$3 781.2 million and represented 27.0 weeks of projected goods and services imports as well as 82.8 per cent of the IMF's ARA metric.

Chart 10: Jamaica: Current Account Deficit to GDP



2.4.2. Trade in Goods and Services

The deficit on the *Goods & Services* balance is estimated to have recorded a deterioration of US$393.1 million for 2017. This change largely reflected the impact of a higher deficit on the *Goods* balance, the impact of which was partly offset by an improved surplus on the *Services* sub-account.

2.4.2.1. Merchandise Trade

For 2017, the merchandise trade deficit (*Goods* balance) is assessed to have worsened by US$531.8 million, relative to 2016 (see **Table 5**). Imports (f.o.b.) increased by US$706.4 million or 16.9 per cent, partly offset by higher exports of US$174.6 million or 14.6 per cent.

All categories of imports are estimated to have increased in the review year. Fuel imports grew by US$366.9 million or 39.2 per cent amid higher international fuel prices. Capital Goods, Consumer Goods and Raw Materials rose by US$224.3 million, US$99.6 million and US$78.1 million, respectively. Growth in these categories of imports was primarily influenced by higher global commodity prices. In the case of Capital Goods and Raw Materials, the growth reflected the impact of an increase in investment projects.

The expansion in exports, the highest level since 2011, was largely driven by increased earnings from alumina and non-traditional exports. Of note, higher earnings from alumina reflected the impact of an increase of 19.5 per cent in alumina prices. With respect to non-traditional exports, growth was registered for mineral fuel exports as well as beverages (see **Section 2.7: Production**).

2.4.2.2. Services

Net earnings from *Services* are estimated to have increased by US$138.7 million (13.5 per cent) to US$1 165.4 million in 2017. This reflected an increase of US$276.9 million in inflows, the impact of which was partly offset by growth of US$138.3 million in outflows.

The higher surplus on the *Services* sub-account was largely underpinned by an increase of US$246.8 million (10.8 per cent) in *Travel*. The impact of *Travel* was partly offset by deterioration in *Transportation* and *Other Services.*[11]

Table 5

SUMMARY OF BALANCE OF PAYMENTS (US$MN)

	2016 1/	2017 2/	Change	% Change
1. CURRENT ACCOUNT	**-166**	**-442.7**	**-276.7**	**-166.6**
% of GDP	**-1.2**	**-3.0**	**-1.8**	
A. GOODS BALANCE	**-2 987.1**	**-3 519.0**	**-531.8**	**-17.8**
Exports (f.o.b.)	1 194.9	1 369.4	174.6	14.6
Imports (f.o.b.)	4 182.0	4 888.4	706.4	16.9
B. SERVICES BALANCE	**1 026.7**	**1 165.4**	**138.7**	**13.5**
Transportation	-559	-637.1	-78.1	-14
Travel	2 282.6	2 529.4	246.8	10.8
Other Services	-697	-726.9	-29.9	-4.3
GOODS & SERVICES BALANCE	**-1 960.4**	**-2 353.6**	**-393.1**	**-20.1**
C. INCOME	**-595**	**-516.3**	**78.6**	**13.2**
Compensation of Employees	79.2	93.6	14.4	18.2
Investment Income	-674.2	-610	64.2	9.5
D. CURRENT TRANSFERS	**2 389.4**	**2 427.2**	**37.8**	**1.6**
Official	185.3	164.5	-20.8	-11.2
Private	2 204.1	2 262.7	58.7	2.7
2. CAPITAL & FINANCIAL ACCOUNT	**166.0**	**442.7**	**276.7**	**166.6**
A. CAPITAL ACCOUNT	**-10.8**	**-7.5**	**3.2**	**30**
Official	20.9	23.9	2.9	14.1
Private	-31.7	-31.4	0.3	0.9
B. FINANCIAL ACCOUNT	**176.8**	**450.3**	**273.4**	**154.6**
Official Investment	-36.3	591	627.3	1 729.5
Private Investment 3/	495.4	348.2	-147.3	-29.7

1/ Revised
2/ Provisional
3/ Includes Errors & Omissions
4/ Minus denotes increase

The improvement in *Travel* reflected a notable uptick in foreign national stop-over arrivals which grew by 7.4 per cent. In addition, there was an increase in their estimated average daily expenditure, the impact of which was partly offset by a shorter average length of stay. Cruise arrivals recorded growth of 5.9 per cent for the year. Total visitor expenditure amounted to US$2 796.7 million in 2017 while total visitor arrivals amounted to 4.1 million.

With regard to the increased deficit on *Transportation,* this primarily reflected the impact of higher freight charges associated with the growth in imports. The deterioration in *Other Services* was due to larger outflows for Other Business Services. This was related to fees and commissions for travel agents and tour operators.

[11] Other Services include communication, computer & information, other business and government services.

2.4.3. Income

For 2017, the deficit on the Income sub-account is estimated to have contracted by US$78.6 million to US$516.3 million (see **Table 5**). The activity on the *Income* sub-account principally reflected lower direct and portfolio investment outflows of US$35.8 million and US$22.6 million, respectively.

2.4.4. Current Transfers

The surplus on the *Current Transfers* sub-account is estimated to have increased by US$37.8 million in 2017. This increase was largely underpinned by growth of US$58.7 million in *Private Transfers,* the impact of which was partly offset by a decline of US$20.8 million in General Government inflows. *Private Transfers* are estimated to have increased by US$66.6 million or 2.7 per cent and was related to positive developments within the major source markets for remittance inflows (see **Section 2.2: International Economic Developments**). Gross remittances for 2017 are estimated to have amounted to US$2 506.3 million or 17.5 per cent of GDP.

2.4.5. Capital and Financial Account

The *Capital Account* improved marginally to record a deficit of US$7.5 million relative to the deficit of US$10.8 million for the previous year. With regard to the *Financial Account*, *Net Official Investments* improved by US$627.3 million to record a surplus of US$591.0 million (see **Table 6**). The improvement primarily reflected the impact of net commercial borrowing of approximately US$834.4 million in August 2017. The surplus on *Private Investments* fell by US$147.3 million to US$348.2 million as a result of lower portfolio flows.

Table 6

OFFICIAL INVESTMENT FLOWS (US$MN)	2016[1/]	2017[2/]	Change
GROSS OFFICIAL INFLOWS	**575.7**	**1552.8**	**977.0**
Project Loans	272.1	212.9	-59.2
Other Loans	303.7	1 339.8	1 036.2
GROSS OFFICIAL OUTFLOWS	**612.0**	**961.8**	**349.8**
Government Direct	314.7	522.2	207.5
Bank of Jamaica	165.3	336.9	171.6
Other Official	132.0	102.7	-29.4
NET OFFICIAL INVESTMENTS	**-36.3**	**591.0**	**627.3**

[1/] *Revised*
[2/] *Provisional*

2.5. Foreign Exchange Market

For 2017, the value of the Jamaica Dollar appreciated by 2.8 per cent relative to the US dollar. This was in contrast to a depreciation of 6.3 per cent recorded in 2016. The appreciation in 2017 was influenced by generally buoyant US dollar liquidity conditions, which offset heightened demand impulses that arose, particularly, in the first three quarters of the year. Consequently, there was a reduction in BOJ's intervention sales for the year to US$594.8 million compared to US$870.2 million in 2016. Several factors contributed to the buoyant USD liquidity in 2017. These include:

a) The prepayment of local USD Certificates of Deposit (CDs) and GOJ Benchmark USD notes by BOJ and GOJ, respectively;

b) Unprecedented levels of foreign currency inflows from sectors such as Tourism. Notably, earnings for 2017 were estimated at US$3.0 billion, an increase of 11.6 per cent relative to 2016;

c) The implementation of several operational and policy reforms by the Bank of Jamaica, with the support of the IMF, aimed at enhancing foreign exchange market development. In this regard, the Bank introduced and successfully implemented the Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT) in July. B-FXITT allows the Bank to conduct its intervention operations at a market-determined price that accurately reflects market conditions at the time of the operation (see **Appendix D**). This facilitates improved efficiency in allocations and reduces the likelihood of volatility in post-intervention trading as a result of potential differentials between market prices and intervention prices; and

d) A reduction of five percentage points in the surrender requirements for Authorized Dealers and Cambios, effective 25 October 2017. Accordingly, the surrender requirement for Authorised Dealers under the Public Sector

Entities (PSE) Facility was reduced from 25.0 per cent to 20.0 per cent of Authorised Dealers' US dollar purchases from commercial clients. Concurrently, the surrender requirement for Cambios was lowered from 20.0 per cent to 15.0 per cent of their daily foreign exchange purchases from commercial clients.

The seasonally heightened demand impulses in the March quarter was satisfied by increased intervention sales totalling US$122.3 million for the quarter as well as the prepayment of BOJ CDs of US$259.4 million on 25 January 2017. The net impact of these developments resulted in a subdued depreciation of 0.2 per cent relative to 1.3 per cent for the March 2016 quarter.

In the June quarter, increased demand conditions re-emerged from buoyant Jamaica Dollar (JMD) liquidity due to the maturity of GOJ JMD instruments amounting to approximately $60 billion in May 2017. In an effort to satisfy the excess demand for US dollars, the Bank intervened with sales of US$240.5 million in May. This contributed to a small appreciation for the quarter.

During the September quarter, increased demand for US dollars emanated from end-users. This build-up in demand resulted in the exchange rate depreciating to a high of US$1.00: J$131.31 on 15 September. Subsequently, the GOJ early repayment of USD 528 million on its local USD BMI 2020A and 2020B notes facilitated a reversal of the depreciating trend in the exchange rate. In addition, an attractive, privately issued USD indexed instrument incentivized the conversion of the proceeds of the prepayment by some investors. These developments created increased USD liquidity in the market which supported an appreciation of the exchange rate.

During the December quarter, the trend appreciation in the exchange rate continued, supported by low end-user demand as well as investors' conversion of USD holdings to JMD to participate in Initial Public Offerings. USD liquidity was further bolstered by the reduction in the surrender requirements for both Authorised Dealers and Cambios. Consequently, the exchange rate appreciated by 3.9 per cent for the quarter.

Authorised dealers remained the dominant foreign exchange market intermediaries during the year, accounting for 63.0 per cent of total foreign exchange sales compared to 61.4 per cent in 2016. Accordingly, the market share for Cambios declined to 37.0 per cent from 38.6 per cent in 2016. Supported by the general improvement in supply, overall market activity reflected an increase of US$11 845.3 million in sales volumes in 2017 compared to US$10 782.1 million in 2016.

With respect to the other major currencies, the Jamaica Dollar depreciated against both the Canadian dollar and Great Britain Pound by 1.60 per cent and 5.80 per cent, respectively, in 2017.

Table 7

Purchases and Sales of Foreign Exchange (US$ Million)

	Purchases		Sales	
Quarter	**2016**	**2016**	**2016**	**2017**
March	2 636.4	2 701.4	2 663.6	2 799.2
June	2 691.7	2 813.4	2 747.1	2 896.8
September	2 644.7	2 906.5	2 715.2	2 848.1
December	2 540.6	3 213.3	2 656.2	3 301.2
Total	**10 513.5**	**11 634.5**	**10 782.1**	**11 845.3**

Includes BOJ Intervention

Source: BOJ

Chart 11: Quarterly Appreciation (–) /Depreciation (+) in the Jamaica Dollar relative to the US dollar

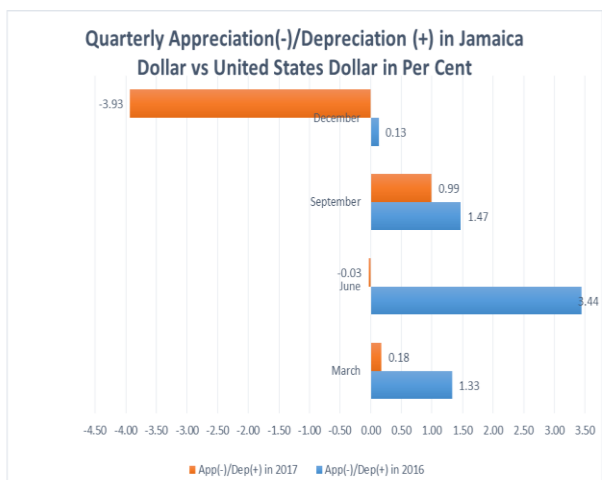


Table 8

Daily Average Trading Volumes (US$ Million) - Excl. Intervention 2017						
	Purchases From:			Sales to:		
Quarter	**Earners**	**Inter-Dealer**	**Total**	**End-users**	**Inter-Dealer**	**Total**
March	30.2	8.4	38.6	33.5	8.3	41.8
June	28.3	6.0	34.3	28.7	6.0	34.7
September	27.5	6.8	34.3	27.7	6.7	34.4
December	30.9	9.3	40.2	31.4	9.2	40.6
Average per diem	**29.2**	**7.6**	**36.8**	**30.3**	**7.6**	**37.9**
Daily Average Trading Volumes (US$ Million) - Excl. Intervention 2016						
	Purchases From:			Sales to:		
Quarter	**Earners**	**Inter-Dealer**	**Total**	**End-users**	**Inter-Dealer**	**Total**
March	29.1	6.2	35.3	28.5	6.0	34.5
June	29.6	7.2	36.8	28.0	7.2	35.2
September	29.2	8.5	37.7	28.9	8.6	37.5
December	30.2	8.6	38.8	28.9	8.7	37.6
Average per diem	**29.5**	**7.6**	**37.1**	**28.6**	**7.6**	**36.2**

All Currencies converted to USD

Source: BOJ

Table 9

Growth Rates, Daily Average Trading Volumes - 2017						
	Purchases From:			Sales to:		
Quarter	**Earners**	**Inter-Dealer**	**Total**	**End-users**	**Inter-Dealer**	**Total**
March	4.1%	34.9%	9.5%	17.7%	37.9%	21.2%
June	-4.7%	-16.5%	-7.0%	2.3%	16.7%	-1.6%
September	-5.6%	-20.5%	-8.9%	-4.3%	-21.8%	-8.3%
December	2.2%	8.2%	3.5%	9.0%	5.8%	8.2%
Average per diem	-1.0%	-0.2%	-0.8%	6.2%	-0.9%	4.7%

Source: BOJ

2.6. Money and Credit

2.6.1. Money Supply

The annual growth in broad Jamaica Dollar money supply (M2J) increased to 30.7 per cent as at October 2017 from 12.9 per cent as at October 2016. The strong expansion in 2017 was also greater than the average growth of 7.3 per cent over the last five years. However, much of this growth reflected the impact of new entrants in the commercial banking space in the March and September 2017 quarters. Excluding the impact of these entrants, M2J recorded growth of 12.8 per cent, a moderation relative to the previous year (see Table 10). The expansion in M2J as at October 2017 reflected growth of 10.3 per cent and 36.6 per cent in currency in circulation and local currency deposits, respectively. The growth in currency with the public was lower than the increase of 15.7 per cent as at October 2016. This slowdown was influenced by increased use of electronic means of payment.

With regard to local currency deposits, the expansion was well above the increase of 12.1 per cent for the similar period of 2016. Expansion in local currency deposits for the review period reflected strong growth in time and savings deposits relative to the outturn in 2016. The acceleration in the annual growth of broad money was influenced by a pickup in domestic demand, an appreciation of the domestic currency and a notable acceleration in credit growth relative to 2016.

Table 10

COMPONENTS OF CHANGE IN MONEY SUPPLY Annual Change as at October					
	Flows (J$MN)		% Change		
	2016	**2017**	**2016**	**2017**	**W/o NE**
Total Money Supply (M2*)	**83 023.9**	**131 722.7**	**17.2**	**23.3**	**9.8**
Money Supply (M2J)	**37 506.6**	**101 139.4**	**12.9**	**30.7**	**7.7**
Money Supply (M1J)	**23 015.0**	**22 509.1**	**16.4**	**13.8**	**13.2**
Currency with the public	9 934.8	7 505.2	15.7	10.3	11.7
Demand Deposits	13 080.3	15 003.9	16.9	16.6	14.4
Quasi Money	**14 491.6**	**78 630.4**	**9.6**	**47.5**	**12.4**
Savings Deposits	14 978.0	54 739.4	12.6	40.9	9.8
Time Deposits	- 486.4	23 890.9	- 1.5	75.8	23.6
Foreign Currency Deposits	**45 517.3**	**30 583.3**	**17.2**	**12.9**	**4.8**
Sources of Change in Money Supply	**Flows (J$MN)**				
	2016	**2017**	**2016**	**2017***	**W/o NE**
TOTAL	**83 023.9**	**131 722.7**	**17.2**	**23.3**	**9.8**
Net Foreign Assets	**58 465.2**	**23 717.6**	**17.7**	**6.1**	**- 1.2**
Bank of Jamaica	21 325.3	73 239.4	7.3	23.2	24.8
Commercial Banks	37 139.9	-49 521.8	104.7	- 68.2	- 114.1
Credit to the Private Sector	**50 612.4**	**155 338.6**	**13.8**	**37.3**	**13.9**
Local Currency	43 457.1	138 435.5	15.6	42.9	14.0
Foreign Currency	7 155.3	16 903.2	8.2	18.0	9.3
Net Claims on Public Sector	**-13 241.4**	**27 544.9**	**- 10.7**	**24.9**	**- 31.0**
Net Claims on Financial Institutions	**26 003.4**	**-79 968.9**	**- 51.2**	**323.1**	**138.3**
BOJ Open Market Operations/1	**-5 439.8**	**-53 430.4**	**11.9**	**104.6**	**104.6**
Other Items (Net)	**-33 375.9**	**58 520.8**	**23.0**	**- 21.4**	**- 20.6**

/1 A negative flow represents an increase in the stock.

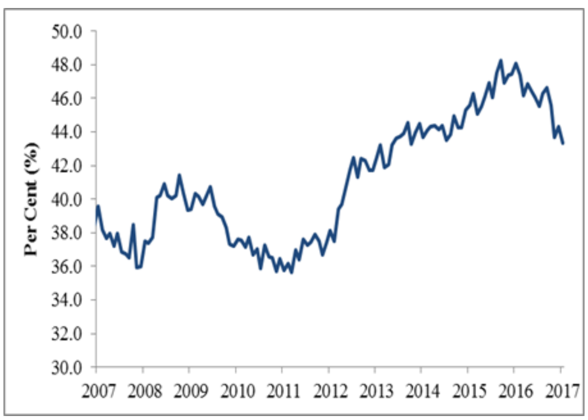
Source: BOJ

The outturns for the monetary base and broad money supply as at October 2017, resulted in the money multiplier increasing to 2.8 from 2.6 as at October 2016. This increase in the money multiplier reflected a higher currency to deposit ratio, as the reserve to deposit ratio was relatively flat in the review year. The higher ratio of currency to deposits reflected an uptick in spending in a context where there was an increase in economic activity.

At October 2017, growth in the measure of money supply that includes foreign currency deposits, M2*, accelerated to 23.3 per cent from 17.2 per cent as at October 2016. Without the new entrants, M2* expanded at a rate of 9.5 per cent, a moderation relative to the similar period of 2016. The expansion over the twelve-month period ended October 2017 compares to average growth of 11.1 per cent over the similar period of the last five years. The Jamaica Dollar value of foreign currency deposits grew at a slower pace of 12.9 per cent at October 2017 relative to 23.8 per cent at October of the previous year. This slower growth reflected an increase in the stock of foreign currency deposits of 14.7 per cent and the impact of an appreciation of 0.3 per cent in the weighted average selling rate (WASR) of the Jamaica Dollar vis–à–vis the US dollar. The growth in the US dollar stock of foreign currency deposits reflected increases in the three components of foreign currency deposits (demand, savings and time deposits). Given the appreciation and a stronger growth in total deposits relative to foreign currency deposits during the review period, the deposit dollarization ratio for commercial banks declined to 43.3 per cent as at October 2017 from 48.1 per cent as at October 2016 (see **Chart 12**).

The main sources of the expansion in M2* for the review period were an increase of $155.3 billion (37.3 per cent) in credit to the private sector, growth in net claims on the public sector of $27.5 billion (24.9 per cent) and an increase of $23.7 billion (6.1 per cent) in the net foreign assets of commercial banks. The impact of these expansionary impulses was partially offset by an increase of $53.4 billion (104.6 per cent) in the stock of OMO liabilities as well as growth of $79.9 billion (323.1 per cent) in the net claims on financial institutions (see **Section 2.10: Monetary Policy and Interest Rates**).

Chart 12: Foreign Currency Deposits to Total Deposits 2007 to 2017



2.6.2 Private Sector Credit

Accommodative monetary conditions continued to support growth in private sector credit in the review year. In this regard, the annual growth in private sector financing (including domestic and foreign currency denominated loans) by deposit taking institutions (DTIs) was 11.4 per cent as at October 2017. Nonetheless, this growth represented moderation relative to the increase of 13.8 per cent for the similar period in 2016 and was marginally below the average growth of 11.7 per cent for the similar periods of the previous five years. Relative to GDP, the stock of private sector credit was 32.4 per cent compared with 30.6 per cent a year earlier (see **Table 11**).

Credit growth in DTIs was primarily underpinned by the performance of commercial banks' credit to the private sector, which increased by 37.3 per cent as at October 2017. This outturn was stronger than the expansion of 13.8 per cent for the same period in 2016. However, it should be noted that much of the increase reflected the impact of two new entrants to the commercial banking sector in the March and September 2017 quarters. Excluding the impact of these institutions, private sector credit grew by 13.9 per cent for the review period ended October 2017.

The continued expansion in private sector credit reflected the impact of the Bank's generally accommodative monetary policy stance and occurred in the context of increased competition in the market for loanable funds. Greater use of corporate bonds issued via exempt distribution would have contributed to the moderation in credit growth in the review period. The increased use of this source of financing as well as the heightened competition in the banking sector were major factors, which continued to influence an easing in credit conditions for corporate entities.

Table 11

Total Credit to the Private Sector for Year Ended 31 October			
Flow J$ MN	**2016**	**2017**	**2017***
Private Sector Credit	**50 612.4**	**155 338.6**	**55 594.9**
% Change	*13.8*	*37.3*	*13.9*
of which			
Loans and Advances	49 972.9	125 758.7	42 145.7
Less Loans to Overseas Residents	4 774.0	6 033.1	6 375.0
Add Corporate Securities	639.5	3 766.1	2 740.1

* *Without new entrants to the commercial banking sector.*

2.6.3 Loans and Advances

The expansion in private sector credit for the review period reflected growth in loans and advances to both businesses and households. For the twelve month period ended October 2017, loans and advances to the private sector expanded by 30.5 per cent ($125.7

billion) relative to growth of 13.8 per cent ($49.9 billion) for the twelve months ended October 2016. However, without the inclusion of the new entrants, loans and advances expanded at a moderate pace of 10.2 per cent ($42.1 billion).

As at October 2017, there were expansions in the supply of credit to both businesses and individuals. Business loans expanded by 15.7 per cent relative to 13.2 per cent at October last year (see **Table 12**). The expansion was reflected across most sectors, particularly, *Mining & Quarrying* (43.0 per cent), *Manufacturing* (42.1 per cent) and *Professional & Other Services* (29.5 per cent).[12] Personal lending grew by 45.7 per cent during the review period ended October 2017 relative to 14.4 per cent for the similar period of 2016. However, excluding the impact of the new entrants, personal lending grew at a moderate pace of 13.8 per cent.

Table 12

Commercial Banks' Distribution of Total Loans & Advances to the Private Sector (J$ MN) For Year Ended 31 October						
	Flows			%		
	2016	2017	2017*	2016	2017	2017*
Loans and Advances	**49 972.9**	**125 758.7**	**42 145.7**	**13.8**	**30.5**	**10.2**
Business Lending	**24 369.3**	**32 798.7**	**14 034.9**	**13.2**	**15.7**	**6.7**
Agriculture & Fishing	0 453.4	-965.9	-1 257.1	4.9	-9.9	-12.9
Mining & Quarrying	-0 120.0	298.3	0 062.6	-14.7	43.0	9.0
Manufacturing	-0 827.2	6 569.7	1 585.9	-5.0	42.1	10.2
Construction & Land Dev.	-1 107.9	2 543.3	-1 445.9	-4.1	9.8	-5.6
Transport, Storage & Comm.	0 109.9	-452.2	-0 982.9	1.0	-4.3	-9.3
Tourism	11 118.5	7 780.4	6 556.0	34.4	17.9	15.1
Distribution	5 525.5	5 273.8	1 565.4	11.2	9.6	2.8
Electricity, Gas & Water	6 035.2	3 027.1	2 734.4	56.8	18.2	16.4
Entertainment	0 685.8	337.8	0 306.9	44.1	15.1	13.7
Professional & Other Serv.	2 496.1	8 386.6	4 909.8	9.6	29.5	17.3
Personal Lending	**25 603.6**	**92 959.9**	**28 110.8**	**14.4**	**45.7**	**13.8**

** Without new entrants to the commercial banking sector*

Growth in foreign currency loans to the private sector was 19.6 per cent for the review period, compared to 0.5 per cent for the comparable period of 2016. This expansion was primarily reflected in business loans. More specifically, loans to private businesses expanded by 21.2 per cent relative to 1.6 per cent at October 2016 (see **Table 13**).

This acceleration in the growth in foreign currency loans was mainly underpinned by an expansion of 119.2 per cent in loans to the *Manufacturing* sector. Excluding the impact of the new entrants, foreign currency loans and advances to the private sector would have grown by 11.6 per cent. The growth in foreign currency loans occurred in the context of a faster pace of appreciation in the Jamaica Dollar vis-à-vis the US dollar, which shifted the incentive to borrowing in foreign currency.

Table 13

Commercial Banks' Distribution of Foreign Currency Loans & Advances to the Private Sector (US$MN) For Year Ended 31 October						
	Flows			%		
	2016	2017	2017*	2016	2017	2017*
Loans and Advances	**11 585.0**	**143 313.0**	**84 804.0**	**0.5**	**19.6**	**11.6**
Business Lending	**10 677.0**	**141 991.0**	**86 383.0**	**1.6**	**21.2**	**12.9**
Agriculture & Fishing	-1 139.0	-2 457.0	-3 907.0	-7.4	-17.2	-27.3
Mining & Quarrying	0 066.0	-0 064.0	-0 064.0	14.2	-12.0	-12.0
Manufacturing	-12 729.0	29 042.0	-3 445.0	-34.3	119.2	-14.1
Construction & Land Dev.	-44 722.0	15 806.0	11 946.0	-37.7	21.4	16.2
Transport, Storage & Comm.	-13 186.0	-9 498.0	-12 637.0	-25.9	-25.2	-33.5
Tourism	67 725.0	59 041.0	51 254.0	26.6	18.3	15.9
Distribution	-21 980.0	12 138.0	7 978.0	-25.1	18.5	12.2
Electricity, Gas & Water	39 683.0	14 249.0	14 249.0	86.4	16.6	16.6
Entertainment	-0 693.0	1 413.0	1 413.0	-14.5	34.6	34.6
Professional & Other Serv.	-2 348.0	22 321.0	19 596.0	-5.2	52.7	46.2
Personal Lending	**-6 974.0**	**1 322.0**	**-1 579.0**	**-10.4**	**2.2**	**-2.6**

** Without new entrants to the commercial banking sector*

2.6.4. Interest Rates

Bank of Jamaica continued to improve its monetary policy framework during the September 2017 quarter. Effective 01 July 2017, the Bank transitioned its policy rate to the rate on the overnight deposit (O/N) from the 30-day Certificate of Deposit (CD). The move was intended to strengthen the monetary transmission mechanism. On 25 August 2017, the Bank reduced its new policy rate to 3.50 per cent from 3.75 per cent. This policy action reflected the Bank's assessment that inflation pressures were contained and that inflation will fall within its target of 4.0 per cent to 6.0 per cent over the next eight quarters.

In the context of an easing of monetary policy, there was a reduction in the weighted average interest rate on commercial banks' local currency denominated loans to the private sector for 2017. Consequently, there was a narrowing in the overall spread between local currency loans and deposit rates (see **Table 15**).

[12] The expansion in credit to the Mining & Quarrying sector mainly emanated from the construction of the Bogue power plant and other renewable energy projects. For the Manufacturing sector, credit expansion stemmed from the investment in new hotels, such as Secrets Montego Bay, Grand Lido Negril and the Royalton Hotel.

2.6.4.1 Interest Rates – Domestic

The overall weighted average rate on local currency denominated loans declined significantly by 130 bps to 14.9 per cent at end-November 2017 (see Table 14).[13] However, much of this decline reflected the impact of new entrants in the commercial banking space. Without these entrants, the weighted average rates would have declined by 12 bps to 16.1 per cent. The reduction was underpinned by the improvement in macroeconomic conditions, the Bank's accommodative monetary policy stance and the impact of heightened competition among institutions in an effort to increase market share. The movement in the rate during 2017 reflected declines of 136 bps and 24 bps in the weighted average lending rates to the private sector and public sector, respectively. With respect to the change in the overall private sector loan rate, there were declines in all loan categories with the exception of commercial lending which increased by 3 bps relative to last year.

Table 14

COMMERCIAL BANKS
LOCAL CURRENCY WEIGHTED AVERAGE INTEREST RATES
(End of Period) (per cent)

	2012	2013	2014	2015	2016	2017	2017*
Overall	**18.44**	**17.49**	**17.18**	**16.92**	**16.21**	**14.91**	**16.09**
Public Sector	**9.94**	**10.09**	**9.83**	**9.71**	**9.04**	**8.80**	**8.80**
Local Govt. & Other Public Entities	10.69	10.99	10.16	11.35	9.84	9.66	9.66
Central Government	9.72	9.96	9.76	8.85	8.48	8.12	8.12
Private Sector	**18.64**	**17.62**	**17.32**	**17.08**	**16.33**	**14.97**	**16.19**
Instalment	17.96	16.81	16.11	15.21	13.94	12.47	12.82
Mortgage	9.90	9.88	9.73	9.61	9.44	8.74	9.48
Personal	25.21	24.77	25.56	26.23	25.44	23.96	23.94
Commercial	12.87	12.76	12.93	12.90	12.44	12.35	12.43

** Without new entrants to the commercial banking sector*

Table 15

COMMERCIAL BANKS
LOCAL CURRENCY INTEREST RATE SPREADS
(End of Period)(percentage points)

	2012	2013	2014	2015	2016	2017	2017*
Weighted Average Local Currency Deposit Rate(%)	**2.10**	**2.04**	**2.64**	**1.62**	**1.44**	**1.64**	**1.66**
Overall Spread	**16.34**	**15.45**	**14.54**	**15.30**	**14.77**	**13.26**	**14.43**
Spread by Sector							
Public Sector	**7.84**	**8.05**	**7.19**	**8.09**	**7.60**	**7.16**	**7.14**
Local Govt. & Other Public Entities	8.59	8.95	7.52	9.72	8.40	8.02	8.00
Central Government	7.62	7.92	7.12	7.23	7.04	6.48	6.46
Private Sector	**16.54**	**15.58**	**14.68**	**15.45**	**14.89**	**13.33**	**14.53**
Instalment	15.86	14.77	13.47	13.58	12.50	10.83	11.16
Mortgage	7.80	7.84	7.09	7.99	8.00	7.10	7.82
Personal	23.11	22.73	22.92	24.60	24.00	22.32	22.28
Commercial	10.77	10.72	10.29	11.28	11.00	10.71	10.77

** Without new entrants to the commercial banking sector*

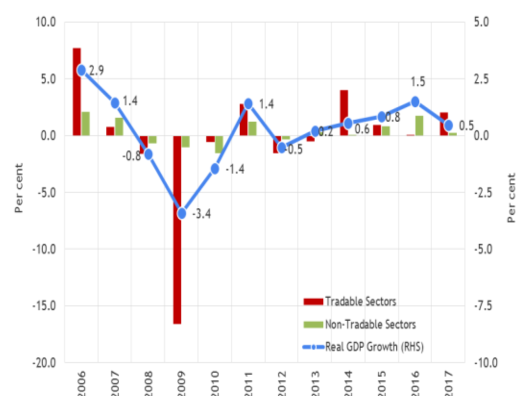
For the review year, the overall interest rate spread on local currency denominated loans relative to deposits fell by 151 bps to 13.26 percentage points, following a decline of 45 bps in the preceding year (see Table 15). The narrowing of the spread occurred in the context of a decline of 130 bps in the overall weighted average loan rate as well as an increase of 20 bps in the weighted average deposit rate.

2.7. Production

2.7.1. Overview

The domestic economy grew by 0.5 per cent in 2017, following an increase of 1.5 per cent for 2016 (see Chart 13). The expansion for 2017 was largely influenced by improvements in both external and domestic demand. Improved external demand conditions were underpinned by an acceleration in growth in the US economy, which facilitated increases in tourism and remittance inflows relative to 2016 (see Section 2.2: International Economic Developments). Domestic demand conditions reflected relatively high levels of consumer and business confidence in the context of the achievement of the targets under the IMF precautionary SBA programme.

Chart 13: Real GDP Growth Rates: 2006 – 2017



Source: STATIN and Bank of Jamaica.

Economic growth for 2017 was predominantly supported by increased activity in the tradable industry which grew by 2.0 per cent as the non-tradable industries registered a slower pace of expansion of 0.2 per cent. These expansions were relative to the outturns of 0.0 per cent and 1.7 per cent for the tradable and non-tradable industries, respectively, in

[13] Interest rate for 2017 represents rates as at November 2017

2016. With the exception of Agriculture, Forestry & Fishing and Mining & Quarrying, all industries recorded growth for the review year (see Table 16).

Table 16

INDUSTRIAL CONTRIBUTION TO GDP GROWTH (%)				
	2016		2017	
Industries	Growth	Contribution	Growth	Contribution
1. GOODS	**4.0**	**65.0**	**-0.7**	**-38.3**
Agriculture, Forestry & Fishing	12.9	56.7	-4.0	-61.6
Mining & Quarrying	-3.3	-5.1	-4.0	-18.3
Manufacture	1.9	10.8	1.5	27.6
Construction	0.5	2.6	0.9	14.1
2. SERVICES	**0.7**	**35.0**	**0.9**	**138.3**
Electricity & Water Supply	3.7	7.7	0.9	6.4
Wholesale & Retail Trade, Repairs & Installation	0.3	3.3	0.5	18.2
Hotels & Restaurants	2.1	8.1	3.9	48.0
Transport, Storage & Communication	0.7	5.0	0.7	15.7
Financing & Insurance Services	1.3	9.6	1.1	25.3
Real Estates, Renting & Business Activities	0.5	3.8	0.5	12.3
Producers of Government Services	-0.1	-1.2	0.1	3.2
Other Services	1.0	4.6	1.0	15.2
Less FINANCIAL INTERMEDIATION SERVICES INDIRECTLY MEASURED	2.3	6.0	0.7	6.0
TOTAL VALUE ADDED	1.5	100.0	0.5	100.0

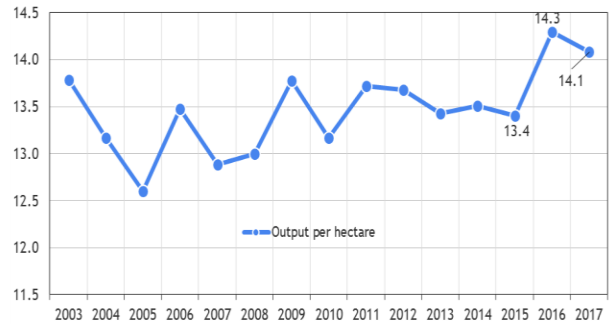
Source: STATIN

2.7.2. Performance by Industry

Agriculture, Forestry & Fishing declined by 4.0 per cent for 2017 in contrast to an expansion of 12.9 per cent in 2016. This decline reflected a fall in domestic crop production, as traditional export agriculture registered growth. The outturn for the review year reflected declines in all quarters. Unfavourable weather conditions, in particular flood rains in May 2017, as well as the adverse effect of agricultural pests on some crops were the major influences on the decline in production across all quarters. In particular, vegetable production was affected by beet army worm infestation while coffee and cocoa production were hampered by coffee leaf rust and frosty pod diseases, respectively.

For the review year, domestic agriculture contracted by 7.5 per cent, in contrast to an expansion of 19.0 per cent in 2016 (see Table 17). The deterioration in domestic agriculture production was evident in all crops, as adverse weather conditions led to a contraction in hectares under cultivation relative to the previous year. In this context, productivity, measured as output per hectare decreased marginally to 14.1 tonnes per hectare from 14.3 tonnes per hectare in 2016 (see Chart 14).

Chart 14: Hectares Reaped 2006 – 2017



Source: Ministry of Agriculture (MOA)

Table 17

SELECTED DOMESTIC CROP PRODUCTION			
	2016	2017	
Crop Group	**Production ('000 tonnes)**		**% Change**
Yams	156.1	144.3	-7.5
Vegetables	243.5	227.8	-6.4
Other tubers	44.9	46.2	3.0
Fruits	54.3	51.9	-4.4
Condiments	52.3	46.0	-12.0
Plantains	43.4	46.1	6.1
Potatoes	65.0	59.1	-9.0
Legumes	5.6	5.3	-4.9
Cereals	2.4	2.5	7.9
Total	**668.8**	**630.5**	**-5.7**

Source: Ministry of Agriculture

Table 18

SELECTED AGRICULTURAL EXPORTS			
	2016	**2017**	**% Change**
Crop	**Exports ('000 tonnes)**		
Sugar	86.3	86.8	0.7
Citrus	2.6	2.5	-6.1
Cocoa	0.3	1.2	324.2
Coffee	0.94	0.85	-9.5
Pimento	0.4	0.3	-32.7
	Values (J$ millions)		
Agriculture Exports	**7 457**	**7 24.2**	**3.6**
	Production ('000 tonnes)		
Sugar cane	1 091.1	1 126.4	3.2
Banana	56.8	64.8	14.1

Source: Ministry of Agriculture and Sugar Corporation of Jamaica

Agricultural exports increased by 5.5 per cent, reflecting higher exports of banana, cocoa and sugar, the impact of which was partly offset by declines in citrus, coffee and pimento exports (see Table 18). Sugar exports were buoyed by the earlier than normal start of the crop year in December 2016 as well as the extension of the season at one factory to August 2017.[14] Coffee exports were, however, negatively affected by excessive rainfall as well as the coffee leaf rust disease, particularly in the first half of the year.

Hotels & Restaurants increased by 3.9 per cent following growth of 2.1 per cent for 2016. The expansion in the review year was reflected in both *Hotels and Restaurants*. The growth in *Hotels* was inferred from an increase of 8.7 per cent in foreign national arrivals relative to the previous year. However, growth in accommodation services was tempered by a decline in the average length of stay of foreign nationals to 8.4 nights from 8.7 nights in 2016. The increase in foreign national arrivals was primarily attributed to economic growth in the major source markets as well as the introduction of additional flights, existing and new routes. Additionally, the increase in visitor arrivals may have reflected the rise of Airbnb, the international online marketplace and hospitality service, which gave tourists access to leased or rented properties offered by homeowners, among others. Visitor expenditure for the review period was buoyed by increases in average daily expenditure, largely supported by improved labour market conditions in major source countries. For *Restaurants*, the expansion is inferred from the assessed improvement in domestic and tourist demand.

Growth in **Electricity & Water Supply** decelerated to 0.9 per cent in 2017 from an increase of 3.7 per cent in 2016. This slower pace of expansion was evidenced particularly in the first half of the year and reflected lower growth in both electricity consumption and water production. The deceleration in electricity consumption was primarily influenced by lower demand during the year. Water production increased by 1.5 per cent relative to growth of 7.8 per cent in 2016.[15] The growth in water production for the review period reflected normalization due mainly to higher levels of rainfall. In addition, water production was buoyed by the implementation of projects geared towards reducing leakages across the Island.

Transport, Storage & Communication expanded by 0.7 per cent, in line with the expansion in 2016. The performance of the industry reflected expansions in both *Transport* and *Communication*. Growth in *Communication* was inferred from the increased broadband penetration and telephone and television service subscriptions associated with increased competition. The increase in *Transport* is deduced from continued rise in both cruise and air passenger arrivals, the impact of which was partly offset by a decline in the volume of cargo moving through the ports.

Construction & Installation increased by 0.9 per cent relative to growth of 0.5 per cent in 2016. The expansion in 2017 was evidenced particularly in the last three quarters. Growth in the industry was bolstered by hotel infrastructural developments, energy-related projects as well as continued construction activities by both the Government and private investor. These included the Government's Major Infrastructural Development Programme and energy sector projects. Expansion in the Information Technology Enabled Services such as Business Process Outsourcing also spurred growth within *Construction* as the need for additional space resulted in several renovations and infrastructural developments during the year. Additionally, performance of the sector was augmented by an expansion in housing starts by the National Housing Trust to 4 099, an increase of 33.5 per cent relative to 2016, as well as the continuation of road rehabilitation works in the first half of the year.

The pace of growth in **Manufacturing** decelerated to 1.5 per cent in 2017 from an increase of 1.9 per cent in 2016. This deceleration largely reflected growth of 0.4 per cent in *Other Manufacturing* relative to expansion of 1.2 per cent in 2016. *Food, Beverages & Tobacco* increased by 2.3 per cent when compared to growth of 2.5 per cent in 2016. The slower growth in *Other Manufacturing* was primarily associated with lower output of refined petroleum and non-metallic minerals, the impact of which was partly offset by

[14] The sugar crop year runs from January to July of each year.

[15] The significant growth in water production in 2016 was due to a normalization in rainfall levels relative to drought conditions which prevailed in the previous year.

increased production of chemical and chemical products. The lower output of refined petroleum was partly due to reduced operating capacity while the production of non-metallic minerals was adversely impacted by operational challenges (see Table 19).

Growth in *Food, Beverages & Tobacco* was boosted by increased production of beverages and food processing. In addition, the performance of sugar improved given the early start and extension of the crop season. Food processing reflected increases in meat & meat products, manufacture of animal feeds and bakery products. Increased production of beverages was facilitated by ongoing investment by the major manufacturing companies to enhance efficiency and expand output.

Table 19

SELECTED MANUFACTURING ITEMS			
	2016	2017	% Change
Item	Production (tonnes)		
Poultry Meat	125.2	127.5	1.9
Sugar	86.1	86.8	0.9
Molasses	54.2	54.4	0.4
Edible Oil	22.4	24.2	8.0
Non-Metallic Minerals	911.3	845.9	-7.2
Animal Feeds	461.3	491.3	6.5
	Production ('000 kilolitres)		
Non-Alcoholic Beverages	228.9	248.1	8.4
Alcoholic Beverages	68.1	85.6	22.3
Petroleum Products	1152.9	1120.3	-3.0

Source: PIOJ

Notwithstanding the restart of one of the large alumina plants, Mining & Quarrying contracted by 4.0 per cent for 2017, following the decline of 3.3 per cent in 2016. The unfavourable performance reflected contractions of 4.9 per cent and 4.4 per cent in total bauxite production and alumina production, respectively. For 2016, there was a decrease of 11.7 per cent in total bauxite production, while alumina production remained flat. The decline in total bauxite production in 2017 reflected a reduction of 6.6 per cent in crude bauxite resulting from the loss of a major market. The outturn in alumina production resulted from a decrease in the capacity utilisation rate for the alumina industry to 41.5 per cent from 43.1 per cent during 2016. The lower capacity utilisation was mainly attributable to the impact of operational challenges throughout the year as well as adverse weather conditions.

Financing & Insurance Services grew by 1.1 per cent relative to 1.3 per cent in 2016. The expansion in 2017 reflected consistent increases in all sub-industries during the year. Growth in monetary institutions was largely deduced from expansions in non-interest income and the stock of loans and advances.

2.7.3. Labour Market Developments

There was significant improvement in labour market conditions in 2017 as the unemployment rate declined by 1.5 percentage points to 11.7 per cent, relative to the previous year. The decline in the unemployment rate reflected growth of 2.3 per cent in employment which outweighed the expansion of 0.5 per cent in the labour force. The outturn was also associated with a decline of 1.2 percentage points in the job seeking rate relative to the previous year. There were increases in employment in all industries with the exception of Mining, Quarrying & Refining and Electricity, Gas & Water which registered declines, while Wholesale & Retail Trade remained flat (see Table 20).

Table 20

SELECTED LABOUR FORCE INDICATORS			
	2016	2017	% Change
Total Labour Force ('000)	1 352.9	1 360.3	0.5
Employed Labour Force ('000)	1 174.5	1 201.8	2.3
Unemployment Rate (%)	13.2	11.7	-1.5
Job Seeking Rate (%)	8.6	7.3	-1.2
	Employment by Industry ('000)		
Agriculture, Forestry & Fishing	195.4	200.8	2.8
Mining, Quarrying & Refining	5.2	5.2	-1.4
Manufacturing	77.5	79.7	2.9
Electricity, Gas & Water	6.6	5.8	-12.1
Construction & Installation	94.7	98.0	3.5
Wholesale & Retail Trade	238.4	238.5	0.0
Hotels & Restaurants Services	94.8	99.3	4.8
Transport, Storage & Communications	73.5	77.2	5.0
Financial Intermediation	26.0	27.0	4.1
Real Estate, Renting and Business Activities	75.5	82.1	8.7

Source: STATIN

Labour productivity measured as output per hour worked is estimated to have increased by 0.5 per cent in 2017 relative to a decline of 2.6 per cent in 2016. In contrast, output per worker declined by 1.8 per cent following the contraction of 1.6 per cent recorded in 2016 (see Chart 14).

Chart 14: Labour Productivity 2006 – 2017

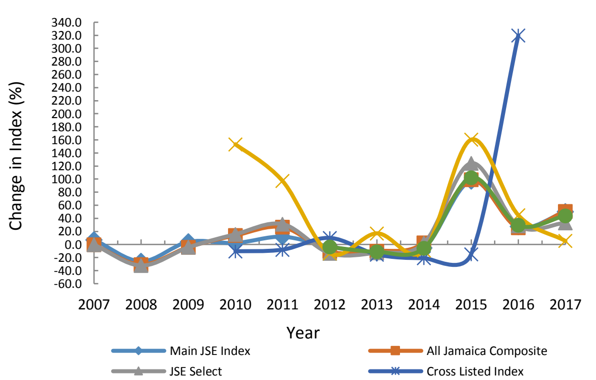
Source: STATIN and Bank of Jamaica.

2.8. The Stock Market

2.8.1. Performance of JSE Indices

All five indices of the Jamaica Stock Exchange (JSE) registered growth for 2017, four of which increased at a faster pace in comparison to 2016.[16] Specifically, the JSE Main Index increased by 50.0 per cent for 2017, following growth of 27.6 per cent for the previous year (see Chart 15). Concurrently, the Combined, JSE Select and All Jamaica Composite indices grew by 43.9 per cent, 33.0 per cent and 50.6 per cent, respectively, relative to growth of 29.5 per cent, 28.6 per cent and 25.6 per cent for 2016. Meanwhile, the Junior Market, recorded an annual growth of 5.3 per cent for 2017, in comparison to the increase of 44.8 per cent in 2016.[17]

Chart 15: Annual Growth of the JSE Indices: 2008–2017



Source: Jamaica Stock Exchange

The strong performance in the JSE indices for the review period, occurred against the background of the continuing improvement in investor appetite for equities. This attraction to the equity market was influenced by positive developments in the macroeconomy, which included growth in real economic activity, low inflation and improved liquidity conditions. In addition, investors' continued approval of the 3-year precautionary Stand-By Arrangement by the Government of Jamaica with the IMF encouraged the more aggressive attitude to investment in equities. At the firm level, improved earnings by large corporates as well as announcements of stocks splits, rights issues, dividend payments and acquisitions contributed to the favourable performance of equity prices. In addition, there were seven new listings (four junior market listings and three main market listings) which bolstered the performance of the equities market (see Table 21).

Investments in equities continued to provide greater returns relative to foreign currency and domestic money market investments for the review period (see Chart 16).[18] Specifically, equities offered a quarterly average return of 10.7 per cent while the quarterly average return in the 30-day private money market was 1.4 per cent for 2017. Meanwhile, foreign currency investments offered a quarterly average return of 0.8 per cent for the review period.

Table 21

STOCK MARKET DEVELOPMENTS IN 2017		
JSE New Listings		Other Developments
Main Market	Junior Market	Mergers & Acquisitions
Productive Business Solutions Ltd	Main Event Entertainment Group Ltd	NCB Financial Group Ltd & Clarien Group Ltd
Wisynco Group Ltd	Express Catering Ltd	Lasco Financial Services Ltd & Scotia Jamaica Microfinance Company Ltd
Victoria Mutual Investments Ltd	FosRich Company Ltd	Access Financial Services & Micro Credit Ltd
	GWEST Corporation Ltd	Supreme Venture Ltd & Caymanas Track Ltd
		Grace Kennedy Ltd & Consumer Brands Ltd
		Proven Investments Ltd & Bank of St. Lucia International Ltd

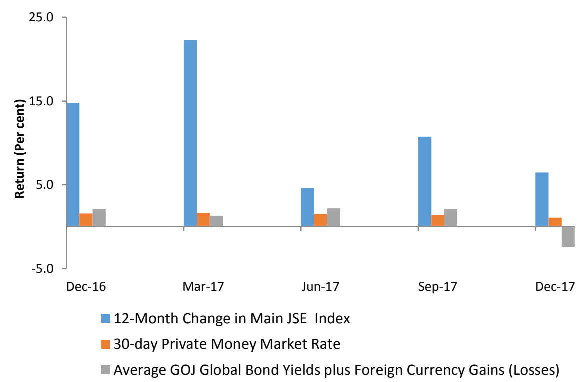
Source: Jamaica Stock Exchange

[16] The Cross Listed Index came to a close in March 2017 after a dramatic increase of 320.0 per cent for 2016.

[17] See JSE website for composition of each index.

[18] The return on foreign currency investments is computed as the sum of foreign currency gains (losses) and average GOJ global bond yields.

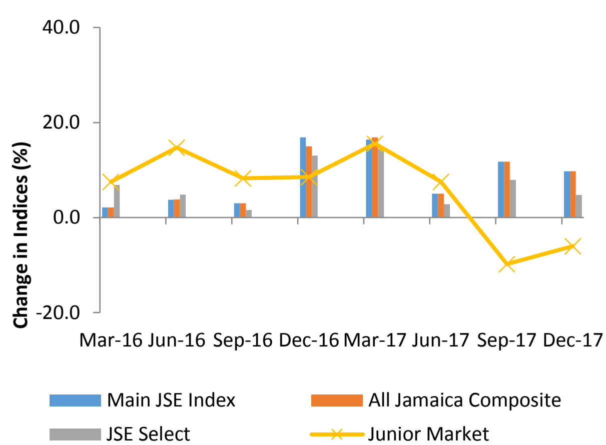
Chart 16: Returns from Equities, Money Market Investments & Foreign Currency Positions



Source: Jamaica Stock Exchange

There was consistent quarterly growth in the JSE indices during 2017 with the exception of the Junior Market. Of note, the strongest increase was recorded in the third quarter and was reflected for most of the indices (see Chart 17). Consistent with improved investor sentiment, all market activity indicators of the JSE Main Index increased during 2017. Specifically, the number of transactions and the value of stocks traded increased by 38.7 per cent and 39.9 per cent, respectively, following growth of 41.0 per cent and 25.0 per cent for the previous year. Of note, the volume of stocks traded increased by 39.2 per cent in contrast to the decline of 3.8 per cent for the prior year (see Table 22).

Chart 17: Quarterly Growth of the JSE Indices: 2016 – 2017



Source: Jamaica Stock Exchange

Table 22

TRADING ACTIVITIES OF THE MAIN JSE 2016-2017			
	Values J$mn	Volumes (mn)	No. of Transactions
Mar-16	5 805.8	403.1	8 752.0
Jun-16	5 392.1	557.8	7 256.0
Sep-16	7 511.4	507.3	7 665.0
Dec-16	6 823.1	341.8	7 011.0
Total	**25 532.5**	**1 810.0**	**30 684.0**
Mar-17	9 171.0	634.0	11 575.0
Jun-17	7 330.8	505.5	10 049.0
Sep-17	5 509.2	326.0	9 797.0
Dec-17	13 711.9	1053.5	11 124.0
Total	**35 722.9**	**2 519.0**	**42 545.0**
Annual Change %	**2016**	**2017**	
Values	25.0	39.9	
Volumes	-3.8	39.2	
No. of Transactions	41.0	38.7	

Source: Jamaica Stock Exchange

2.8.2. Sectoral Performance

The overall advance to decline ratio for the review period was 26:4 in comparison to 24:5 as at end-2016, reflective of the strong performance of the JSE Main Index. Price appreciation was broad-based and reflected the performance of stocks across all sectors. Notably, stocks within the Manufacturing, Conglomerates and Other sectors accounted for seven of the top ten advancing stocks (see Table 23).

Table 23

TOP TEN ADVANCING STOCKS for 2017		
	Price($) (e.o.p)	Price Change (%)
OTHER		
Pulse Investments	1.8	200
Palace Amusement	560	187.2
Supreme Ventures	11.53	117.5
MANUFACTURING		
Berger Paints (Jamaica)	16.55	195.5
Kingston Wharves	32.5	62.4
TOURISM		
Ciboney Group	0.41	127.8
FINANCE		
National Commercial Bank Jamaica	99.38	98.8
CONGLOMERATES		
Jamaica Producers Group	16.7	80.5
Pan Jamaican Investment Trust	45	60.7
DECLINING STOCKS for 2016		
OTHER		
Kingston Properties Limited	7.7	-23
COMMUNICATION		
Radio Jamaica	1.05	-19.2
FINANCE		
Sterling Investments Limited	13	-17.2
MANUFACTURING		
Caribbean Cement Company	32.46	-4.4

Source: Jamaica Stock Exchange

2.9 Public Finance

2.9.1. Introduction

The Government of Jamaica (GOJ) continued to achieve success in fiscal policy under its economic reform programme during 2017. The performance of GOJ in 2017 was supported by a revenue package of 0.7 per cent of GDP as well as special transfers from the public bodies amounting to 1.3 per cent of GDP. These fiscal measures enabled the implementation of the second tranche of the increase in the income tax threshold to $1.5 million, effective 01 April 2017. The special transfers from the public bodies were buoyed by the reintegration of three public bodies within Central Government.[19] Against this background, in October 2017, GOJ achieved its second consecutive successful review under the International Monetary Fund precautionary 3-year Stand-By Arrangement programme.

On 01 April 2017, GOJ redefined the country's public debt as the consolidated debt of the Specified Public Sector net of any cross holdings, except that of the Bank of Jamaica.[20] The fiscal strategy for FY2017/18 was anchored around reducing public debt to or below 60.0 per cent of GDP by FY 2025/26, as mandated by the Fiscal Responsibility Law. In addition, GOJ continued to prioritize spending toward social assistance, addressing crime and the modernization of the tax administration process as well as improving the country's infrastructure and public sector service delivery. The latter involved the aforementioned reintegration of selected public bodies into the Central Government. In this regard, legislation was passed in the House of Representatives on 11 July 2017 to allow for funds from these entities to be placed in the Consolidated Fund. In addition, in July 2017, a time bound plan was submitted to Cabinet for the reintegration of other eligible public bodies into Central Government.

Under the public sector transformation programme a comprehensive structurally simplified database was built to ensure adequate control and oversight over the country's wage bill and allowances paid across the public sector.[21] It had become apparent that the allowance system in the public sector was large, complex, unequal and non-transparent. There were also achievements with respect to reforms of monetary policy and the financial sectors. Chief among these reforms were the proposals submitted to Cabinet for amendments to the Bank of Jamaica (BOJ) Act in line with IMF recommendations. The amendments to the Bank of Jamaica (BOJ) Act sets in train reforms toward a legal framework for inflation targeting. These reforms will help to provide a clear and predictable policy direction for investors and strengthen BOJ's accountability. The governance reforms include: strengthening the BOJ's financial, operational and institutional independence and accountability; identifying an effective Board decision making structure, with clear roles and responsibilities and; recapitalizing the Central Bank to address the currently weak balance sheet.

With regard to the quantitative targets under the SBA, information as at end-2017 suggests that the GOJ achieved its targets for the December 2017 quarter. In particular, the primary balance target for the Central Government and the overall balance of the public sector were attained for end-December 2017.

2.9.2. Central Government Performance

Central Government operations for April-December 2017 resulted in a surplus of $1.3 billion (0.1) per cent of GDP), in contrast to the budgeted deficit of $29.4 billion (see **Tables 24** and **25**). The outturn was also in contrast to the fiscal deficit of $23.5 billion recorded for the corresponding period of 2016. Notably, the primary surplus of $96.5 billion for the fiscal period exceeded the the target under the IMF Stand-By Arrangement by $37.5 billion. However, the overall deficit of $4.0 billion was $2.8 billion higher than the overall deficit recorded for April to December of 2016 due to greater amortization during the review period.

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[19] The reintegrated public bodies are the Tourism Enhancement Fund, Civil Aviation Authority of Jamaica and the Culture, Health, Arts, Sports and Education Fund.

[20] The Specified Public Sector consists of the public sector excluding any public body certified by the Auditor General as primarily carrying out functions that are of a commercial nature. The country's prior definition of public debt included the debt of the Central Government, the Bank of Jamaica and Government guaranteed external debt.

[21] This database includes occupational grouping, the types of allowances paid, their amounts as well as the number of employees receiving each type of allowance in a given fiscal year, across ministries, departments and agencies

For April-December 2017, **Revenue & Grants** was $16.3 billion above the budgeted amount and also exceeded the intake for the corresponding period in 2016 by $38.9 billion (an increase of 11.1 per cent). The over-performance of revenue relative to budget was reflected primarily in *Tax Revenue, Non-tax Revenue* and *Grants*. For *Tax Revenue*, higher than budgeted receipts were recorded in *Income & Profits* and *Production & Consumption*, as well as *International Trade*. *Income & Profits* was buoyed by the performance of company taxes, the impact of which was partly offset by lower than expected receipts from tax on interest. Company taxes benefitted from greater administrative efforts by Tax Administration Jamaica (TAJ) as well as increased profitability of companies and growth in the number of tax paying companies. The underperformance of tax on interest reflected higher payment of tax refunds as well as lower than expected interest rates. The favourable outturn in *Production & Consumption* was reflected in GCT (Local), SCT (local) and Education Tax. With respect to GCT (local), the outturn resulted from greater consumption and increased tax compliance driven largely by e-filing. The perfprmance of SCT (Local) was due to greater than expected production from Petrojam. Education Tax also benefited from improvement in the efficiency of collection by the TAJ as well as higher than expected job creation and personal income. The over performance of International Trade was attributed to Custom duty and Travel tax. For Travel tax, higher than expected visitor arrivals and increased tax compliance drove the outturn. Custom duty benefited from greater imports of motor vehicles, petroleum products and cigarettes.

The favourable performance of *Tax Revenue* for the review period was reflected in a C-Efficiency (GCT & SCT) ratio of 83.0 per cent.[22] The ratio was 2.64 percentage point higher than the implicit budgeted ratio of 80.35 per cent as well as 8.1 percentage points above the ratio for the corresponding period of 2016 (see **Chart 18**).

Table 24[23]

CENTRAL GOVERNMENT SUMMARY ACCOUNTS (J$MN)	FY 2016/17 Q1- Q3	FY 2017/18 Q1- Q3	Budget Q1- Q3	Variance	%
Revenue & Grants	**352 040.0**	**390 947.5**	**374 605.5**	**16 342.0**	**4.4**
Revenue	**347 169.0**	**387 581.2**	**371 400.8**	**16 180.4**	**4.4**
Tax Revenue	322 067.9	353 063.0	339 711.5	13 351.5	3.9
Non-Tax Revenue	22 854.2	32 202.8	30 944.5	1 258.3	4.1
Bauxite Levy	1 830.9	127.5	131.0	- 3.5	- 2.7
Capital Revenue	416.0	2 187.9	613.8	1 574.1	256.5
Grants	**4 870.9**	**3 366.3**	**3 204.7**	**161.6**	**5.0**
Expenditure	**375 529.3**	**389 625.7**	**403 993.7**	**-14 368.0**	**- 3.6**
Recurrent Expenditure	345 652.4	358 653.8	369 785.9	-11 132.1	- 3.0
Programmes	113 107.3	124 161.4	124 893.5	- 732.1	- 0.6
Compensation of Empoyees	132 267.6	139 272.3	146 375.2	-7 102.9	- 4.9
Interest	100 277.5	95 220.1	98 517.2	-3 297.1	- 3.3
Domestic	44 481.0	45 483.7	44 823.1	660.6	1.5
Foreign	55 796.5	49 736.4	53 694.1	-3 957.7	- 7.4
Capital Expenditure	29 876.9	30 971.9	34 207.8	-3 235.9	- 9.5
Fiscal Balance	**-23 489.4**	**1 321.8**	**-29 388.2**	**30 710.0**	**- 104.5**
Primary Balance	**76 788.2**	**96 541.9**	**69 129.0**	**27 412.9**	**39.7**
Loan Receipts	**69 109.7**	**187 627.3**	**138 840.5**	**48 786.7**	**35.1**
Domestic	38 006.0	57 613.4	74 824.3	-17 210.9	- 23.0
External	31 103.7	130 013.9	64 016.2	65 997.7	103.1
Divestment Proceeds/Others	14 604.7	11 400.1	11 701.3	**- 301.2**	- 2.6
Amortization	**61 390.0**	**204 317.7**	**146 291.3**	**58 026.4**	**39.7**
External	35 530.7	51 992.2	58 117.2	-6 124.9	- 10.5
Domestic	25 859.3	152 325.4	88 174.1	64 151.3	72.8
Overall Balance	**-1 165.0**	**-3 968.5**	**-25 137.6**	**21 169.1**	**- 84.2**

Source: Ministry of Finance and the Public Service

Table 25

FISCAL PERFORMANCE RATIOS	Apr-Dec 2016	Apr-Dec 2017		
	Actual	Actual	Bugdet	IMF SBA Programme
Borrowing Requirement (BR)	-1.3	0.1	-1.6	
Curent Balance (CB)	0.1	1.4	0.1	
Primary Balance (PB)	4.3	5.1	3.7	3.1
Interest Payment/GDP	5.6	5.0	5.2	
Fiscal Stability Ratio (FSR)	-1.1	-1.0	-1.1	
Non-Interest Expenditure (NIE)	15.4	15.6	16.2	

International Benchmark

BR greater than **3% of GDP** often indicate serious fiscal balances

FSR closer to zero indicates more stable government finances

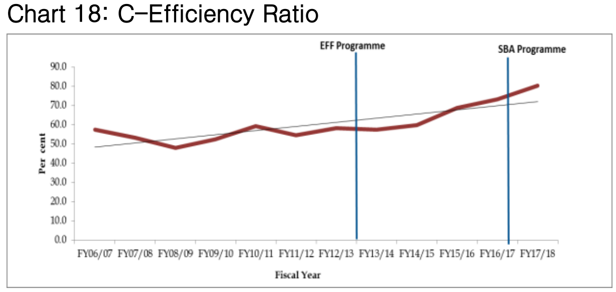
Negative CB Ratio of less than 1% indicates dissaving or a need for fiscal adjustment as the public sector is borrowing for consumption

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

* *Recurrrent expenditure includes programmes, wages & salaries and interest payments*

Source: Ministry of Finance and the Public Service

Chart 18: C-Efficiency Ratio



Source: Bank of Jamaica Calculations

22 The C-Efficiency ratio captures the efficiency of Government's tax collection and is defined as the ratio of the share of value-added tax (VAT) revenue to consumption divided by the standard VAT rate. The generally accepted benchmark for the C-efficiency ratio for small countries is 83.0 per cent. Factors linked to a high C-efficiency ratio are a relatively high share of trade to GDP (presumably because it is relatively easier to collect the VAT at the point of import than domestically); high literacy rates and the age of the VAT.

23 Fiscal balance equals Revenue & Grants minus Expenditure.
Primary balance equals Revenue & Grants minus non-interest expenditure.
Overall balance equals Fiscal Balance plus net amortization.

For the fiscal year-to-December 2017, **Expenditure** was $14.4 billion below budget but $14.1 billion higher than spending in the corresponding period of 2016. With the exception of domestic interest payments, which was marginally higher, all areas of expenditure were below budget. The lower spending on *Compensation of Employees* reflected the impact of unsettled wage negotiations between public sector groups and GOJ for the contract period FY2017/18 – FY2018/19. For *Capital Expenditure*, the deviation from budget reflected the effect of delays in the execution of projects.[24] A less depreciated exchange rate primarily contributed to the deviation in *External Interest Payments*.

2.9.3. Financing

The GOJ's gross financing requirement for the fiscal year-to-December 2017 amounted to $203.0 billion reflecting a surplus of $1.3 billion and amortization of $204.3 billion. Given loan receipts of $187.6 billion and debt repayment of $11.4 billion from the PetroCaribe Development Fund, the Government drew down $4.0 billion from bank balances to finance its operations. Loan inflows during the period included $42.6 billion raised on the domestic capital market, Treasury Bill issuances totalling $13.6 billion and net proceeds of US$834.4 million from the re-opening of two GOJ Global Bonds on the international capital market as well as external project and policy based loans of US$107.7 million and US$70.0 million, respectively.

2.9.4. Public Bodies Performance[25]

For April – December 2017, the Public Bodies recorded an overall surplus of $16.3 billion, relative to a targeted gain of $0.1 billion (see **Table 26**). This compares to the overall surplus of $34.2 billion for April – December 2016. The outturn relative to budget was primarily attributable to lower than anticipated current and capital spending, the impact of which was partly offset by lower than projected current revenue. Notably, transfers to government were $3.8 billion higher than budgeted arising in part from greater payments of taxes from an entitiy.

2.9.4.1. Selected Public Bodies (SPBs)[26]

The SPBs recorded an overall surplus of $0.2 billion for the period April-December 2017, relative to the targeted loss of $9.8 billion (see **Table 27**). The better than expected outturn reflected containment in current and capital spending where the latter resulted from delays in several projects. The main entities experiencing delays in capital projects were the Port Authority of Jamaica (PAJ), the National Water Commission and Petrojam.[27] However, greater than expected capital spending was executed by the National Housing Trust (NHT). In addition, an improvement in account receivables contributed to the over-performance of the SPBs, mainly driven by Clarendon Alumina Production, National Road Operating and Constructing Company Limited and NHT. Notably, current revenue was above budget primarily due to increased sales by Petrojam owing to higher than expected production and prices.

Table 26

TOTAL PUBLIC BODIES (J$MN)	FY2016/17 Q1-Q3	FY2017/178 Q1-Q3	Budget Q1-Q3	Variance
1. Current Revenue	286 486.6	292 420.6	293 238.6	- 818.0
2. Current Expenses	-216 563.6	-221 804.1	-243 124.3	21 320.2
3. Current Balance	**69 923.1**	**70 616.4**	**50 114.3**	**20 502.1**
4. Adjustments	5 248.2	-2 113.4	5 673.1	-7 786.6
of which Depreciation	9 158.1	10 170.2	10 430.0	- 259.7
5. Operating Balance	**75 171.3**	**68 503.0**	**55 787.4**	**12 715.6**
6. Capital Account	-16 794.3	-20 141.9	-26 317.2	6 175.2
7. Transfers from Government	12 836.1	11 979.1	10 873.7	1 105.4
8. Transfers to Government	-36 972.4	-44 056.8	-40 275.3	-3 781.5
9. Overall Balance (5+6+7+8)	**34 240.6**	**16 283.4**	**68.7**	**16 214.7**

Source: Ministry of Finance and the Public Service

24 The capital projects that were delayed were the Constant Spring Road Widening, Barbican Road Improvement and the Hagley Park Road Improvement as well as the installation of water mains on the Mandela Highway.

25 The data includes information to November 2017.

26 Includes: Petrojam, National Water Commission (NWC), National Housing Trust (NHT), National Road Operating and Constructing Company Limited (NROCC,) National Insurance Fund (NIF) and Port Authority of Jamaica (PAJ).

27 Delayed capital projects include the construction of BPO facilities in Montego Bay and Portmore, the KMA Water Supply Improvement Project and the expansion of Petrojam's oil refinery.

Table 27

SELECTED PUBLIC BODIES(J$MN)	FY 2016/17 Q1- Q3	FY 2017/18 Q1- Q3	Budget Q1- Q3	Variance
1. Current Revenue	230 704.4	252 038.9	249 608.3	2 430.5
2. Current Expenses	-185 342.2	-195 293.5	-210 779.6	15 486.2
3. Current Balance	**45 362.2**	**56 745.4**	**38 828.7**	**17 916.7**
4. Adjustments	10 185.9	-2 336.8	5 342.1	-7 678.9
of which Depreciation	8 173.6	9 220.4	9 337.4	- 117.0
5. Operating Balance	**55 548.1**	**54 408.6**	**44 170.8**	**10 237.8**
6. Capital Account	-14 672.9	-18 721.3	-22 306.8	3 585.5
7. Transfers from Government	7 528.7	6 966.7	5 561.7	1 405.0
8. Transfers to Government	-32 486.3	-42 415.0	-37 222.9	-5 192.1
9. Overall Balance (5+6+7+8)	**15 917.6**	**239.0**	**-9 797.2**	**10 036.2**

Source: Ministry of Finance and Public Service

2.9.4.2. Other Public Bodies (OPBs) [28]

For the fiscal-year-to-December 2017, the OPBs recorded an overall surplus of $16.0 billion, $6.2 billion higher than projected (see Table 28). The entities' performance reflected lower than expected current and capital expenditure. The former was partly attributable to a delay in the implementation of e-learning Jamaica by the Universal Service Fund. The containment in capital spending was due mainly to deferments in the National Health Fund bid to take over some

Source: Ministry of Finance and the Public Service

Table 28

OTHER PUBLIC BODIES (J$MN)	FY 2016/17 Q1- Q3	FY 2017/18 Q1- Q3	Budget Q1- Q3	Variance
1. Current Revenue	55 782.3	40 381.7	43 630.3	-3 248.6
2. Current Expenses	-31 221.4	-26 510.7	-32 344.7	5 834.0
3. Current Balance	**24 560.9**	**13 871.0**	**11 285.6**	**2 585.4**
4. Adjustments	-4 937.7	223.3	331.0	- 107.7
of which Depreciation	984.4	949.8	1 092.5	- 142.7
5. Operating Balance	**19 623.2**	**14 094.4**	**11 616.6**	**2 477.7**
6. Capital Account	-2 121.4	-1 420.6	-4 010.3	2 589.7
7. Transfers from Government	5 307.3	5 012.4	5 312.0	- 299.6
8. Transfers to Government	-4 486.1	-1 641.8	-3 052.4	1 410.6
9. Overall Balance (5+6+7+8)	**18 323.0**	**16 044.4**	**9 865.9**	**6 178.5**

Source: Ministry of Finance and the Public Service

2.9.5. Total Debt Stock

Effective 01 April 2017, a new definition for public debt was enacted through amendments to the Financial Administration and Audit Act (2014). The new definition identifies public debt as the consolidated debt of the Specified Public Sector net of any cross-holdings, except that of the Bank of Jamaica. The Specified Public Sector consists of the Public Sector, excluding any public body certified by the Auditor General as primarily carrying out functions that are of a commercial nature.[29]

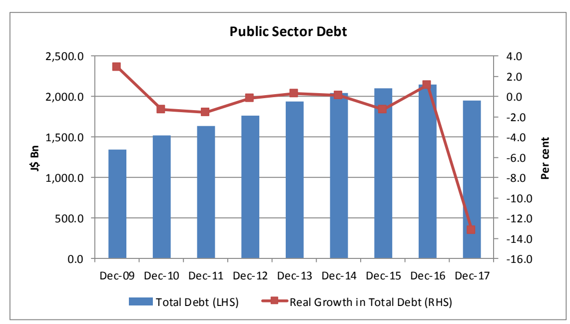
Given the above, at end-2017, Jamaica's stock of debt was $1 948.8 billion (103.3 per cent of GDP), relative to $2 150.1 billion (120.6 per cent of GDP) at end-2016 (see Table 29). The lower debt stock reflected declines in both domestic and external debt as well as the removal of debt held by the Bank of Jamaica, which accounted for 3.7 per cent of GDP.[30] In real terms, the debt stock declined by 13.2 per cent at end-2017, relative to end-March 2017 (see Chart 19). Of note, the net public bodies' debt stock was $17.6 billion (0.9 per cent of GDP), reflecting a gross stock of $358.0 billion (18.9 per cent of GDP), partly offset by cross holdings of $340.4 billion (18.0 per cent of GDP). [31]

Table 29

JAMAICA'S TOTAL PUBLIC SECTOR DEBT (J$MN)	December 2016	% GDP	FY-Dec 2016 Growth %	December 2017	% GDP	FY-Dec 2017 Growth %
Central Government Domestic Debt	834 320.0	44.2	2.3	756 987.3	40.1	- 10.8
Central Government External Debt	1 315 742.6	69.8	5.0	1 174 230.8	62.3	- 10.4
Net Public Bodies	-	-	-	17 621.2	0.9	-
Gross Public Bodies	-	-	-	358 031.4	19.0	-
Cross Holdings	-	-	-	340 410.1	18.0	-
Total Public Debt	2 150 062.6	120.6	3.9	1 948 839.3 *	103.3	- 9.7

Source: Ministry of Finance and the Public Service
*New definition of public debt excludes debt held by the Bank of Jamaica while cross holdings within the public sector are included net.

Chart 19: Jamaica's Total Public Sector Debt



Source: Ministry of Finance and Public Service

[28] Among which are Petro Caribe, Road maintenance Fund (RMF), Student Loan Bureau (SLB), Civil Aviation Authority (CAA)

[29] The country's previous definition of public debt included the debt of the Central Government, the Bank of Jamaica and Government guaranteed external debt.

[30] External debt is defined as all debt issued outside of Jamaica.

[31] Cross holdings refer to debt in which both the creditor and debtor are entities within the Specified Public Sector, other than holdings of the Bank of Jamaica.

2.9.6. Central Government External Debt

At end-2017, the Jamaica Dollar equivalent of the Central Government (CG) external debt declined by 10.4 per cent to $1 174.2 billion relative to the stock at end-March 2017 (see **Table 30**). The decline in the external debt over the period was mainly attributed to the exclusion of the Bank of Jamaica debt as well as an appreciation of 2.8 per cent of the domestic currency vis-à-vis the US dollar. The decline was also partly explained by the reclassification of CG external guaranteed debt to be included in the public bodies' debt. Notably, the stock of CG external debt in US dollars declined by 7.8 per cent to US$9 393.8 million during the period. This was due primarily to the change in the definition of the public debt, as there were net external loan receipts of US$565.3 million over the period. CG external loan receipts included net proceeds of US$834.4 million raised on the international capital market through the re-opening of the GOJ 6.75% 2028 and the GOJ 7.88% 2045 global bonds. In addition, there was the receipt of US$143.0 million in policy based and project loans from the Inter-American Development Bank, the Caribbean Development Bank and the World Bank as well as the China EXIM Bank.

The ratio of CG external debt service to exports increased by 8.7 percentage points to 62.7 per cent for the fiscal-year-to-December 2017, relative to the corresponding period in 2016, mainly attributed to greater external amortization. Similarly, the ratio of CG external debt service to revenue (less grants) increased by 9.9 percentage points to 38.0 per cent for the fiscal-year-to-December 2017 when compared to the fiscal-year-to-December 2016. These ratios point to a decline in the sustainability of the external debt position, as the cost of servicing external debt accounts for a greater share of government revenue and exports. The deterioration in the ratios resulted from significantly higher external amortization over the period.

Table 30

CENTRAL GOVERNMENT EXTERNAL DEBT ($MN)
December 2014 - December 2017

	Dec-14	Mar-15	Dec-15	Mar-16	Dec-16	Mar-17	Dec-17	FY-Dec 2017 Growth %
Central Government External Debt ($J)	992 800.0	986 782.2	1 241 957.9	1 252 811.3	1 315 742.6	1 310 340.3	1 174 230.8 *	- 10.4
Central Government External Debt ($US)	8 658.6	8 577.5	10 314.0	10 265.4	10 244.0	10 184.0	9 393.8	- 7.8

Source: Ministry of Finance and Public Service

**New definition of public debt excludes debt held by the Bank of Jamaica while cross holdings within the public sector are included net.*

2.9.7. Central Government Domestic Debt

At end-2017, CG domestic debt was $757.0 billion, representing a decline of 10.8 per cent relative to end-March 2017. The decline was largely attributable to the repayment of two benchmark investment notes (BIN) totalling $133.5 billion the impact of which was partially offset by the issuance of five BINs amounting to $42.6 billion. Given the above, the fixed rate portion of the domestic debt declined by 4.7 percentage points to 55.5 per cent of the total debt stock. Due to the prepayment of the FR 5.25% USD BINs in September 2017, the domestic debt portfolio is denominated solely in local currency (See **Table 31**).

There was a lengthening of the maturity profile of CG domestic debt at end-2017 as 36.2 per cent of the portfolio was scheduled to mature within 5 years relative to 46.9 per cent at end-March 2017. This reflected the issuance of longer dated BINs during the year. In this context, the duration of the portfolio improved, marginally, to 3.99 years at end-2017 relative to 3.37 years at end-March 2017 (see **Chart 20**).

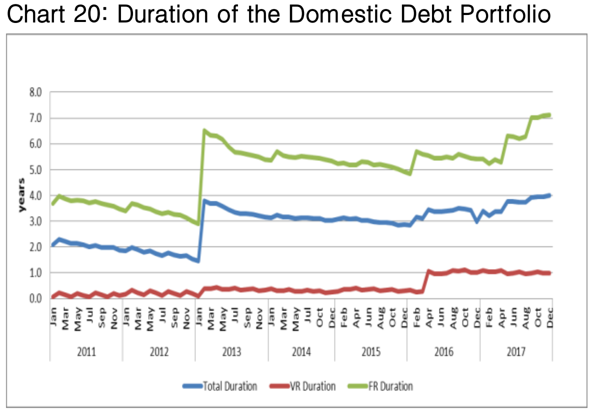
Table 31

STRUCTURE OF CENTRAL GOVERNMENT DOMESTIC DEBT (Per cent)

	Dec-12	Dec-13	Mar-14	Dec-14	Dec-15	Mar-16	Dec-16	Mar-17	Dec-17
Fixed Rate Debt	56.0	67.9	67.0	67.7	60.7	58.6	59.6	60.3	55.5
Debt maturing in less than 5 years	53.2	31.9	30.0	41.6	48.2	44.3	42.6	46.9	36.2
Foreign Currency Debt	18.7	23.2	21.5	23.2	8.1	8.6	8.1	8.0	0.0

Source: Ministry of Finance and Planning

Chart 20: Duration of the Domestic Debt Portfolio



Source: Bank of Jamaica Calculation

2.10. Monetary Policy & Interest Rates

2.10.1. Overview

During 2017, Bank of Jamaica continued to refine its policy operations with the aim of strengthening the transmission of its policy interest rate to market rates. This refinement included the transition of the policy interest rate to the overnight deposit (O/N) rate from the rate paid on the Bank's 30-day Certificate of Deposit (CD) on 01 July 2017. The new signal rate was lowered on two occasions by 25 basis points (bps) to 3.50 per cent and 3.25 per cent, in the third and fourth quarters of 2017, respectively (see Chart 21 & 22). These monetary policy actions reflected the Bank's assessment that inflation for the next four to eight quarters would remain within the target range of 4.0 per cent to 6.0 per cent. The policy adjustment was also consistent with the Government's continued strong commitment to fiscal consolidation.

The Bank continued to offer the 30-day CDs to qualified financial institutions. However, the BOJ reduced the frequency with which it offered these instruments to once per week. In addition, effective 28 July 2017, the BOJ began issuing these instruments in fixed volumes via competitive multiple-price auctions. In keeping with the policy rate reduction, the rate on the Bank's Standing Liquidity Facility (SLF) was reduced by 100 bps to 6.25 per cent, thereby maintaining the width of the interest rate corridor (IRC) at 3.0 percentage points. The excess funds rate (EFR) was, however, maintained at 9.30 per cent. During the year, the Bank also raised, in incremental steps, the cash reserve requirement (CRR) on foreign currency liabilities by 3 percentage points (pps) to 15.0 per cent. The Bank continued to manage Jamaica Dollar liquidity via open market operations (OMO) through issues of regular debt instruments and repurchase operations.

2.10.2. Developments and Challenges

The projected containment of inflation enabled the Bank to focus on completing the process of transitioning from the rate on its 30-day CD to the rate on the O/N deposit as its policy rate. This adjustment is in line with international best practices to strengthen the monetary transmission mechanism. In this context, on 02 March 2017, the Bank further increased the rate on the O/N deposit by 100 basis points to 4.00 per cent, a rate more consistent with overnight private money market rates (PMMR). The aim of this increase was to clearly define the floor of the BOJ interest rate corridor at the shortest end of the yield curve. The Bank also reduced the issue frequency of the 30-day CDs to once per week from twice per week during the first quarter of 2017.

On 01 July 2017, the Bank transitioned its policy rate to the rate on the O/N deposit from the rate paid on its 30-day CD. The Bank subsequently reduced both its new policy rate and the rate on the SLF 3.25 per cent and 6.25 per cent, respectively, to bring the width of the interest rate corridor to 300 basis points. Following the change to the overnight rate as the signal rate, the Bank began on 28 July 2017 to issue 30-day CDs in fixed volumes by competitive multiple price auctions. In a context where the Bank reduced the volume of 30-day CDs it offered at the time of the introduction of fixed volume auctions for the instrument, and the GOJ discontinued its offer of 30-day Treasury Bills, there was increased demand for the O/N deposits by some institutions to meet liquidity requirements. Consequently, the average placement on O/N deposits increased to $26.3 billion for the review year from $4.0 billion in the previous year.

Chart 21: Interest rate on BOJ 30-day Certificates of Deposit and O/N Deposits

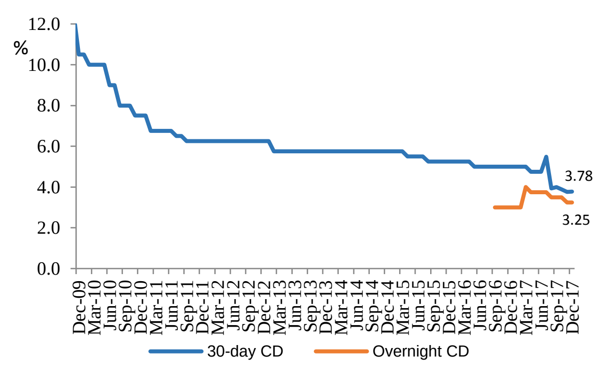
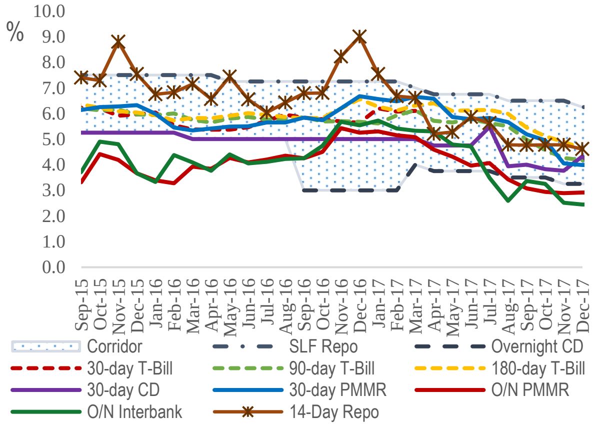


Chart 22: Treasury Bill Yields, Private Money Market Rates & Rates on BOJ's Certificates of Deposit and Overnight lending Facility



During 2017, the BOJ continued to take steps to reduce dollarization in Jamaica. As such, the Bank in March 2017 increased the CRR on foreign currency denominated liabilities by a 2.0 percentage points (pps) and then by an additional 1.0 percentage point in April 2017, to result in a CRR of 15.0 per cent. These adjustments coupled with other initiatives contributed to a reversal in the trend in dollarization. These initiatives included the introduction of the B-FXITT in July 2017 to foster greater two way movement in the domestic currency. The B-FXITT also allowed for greater transparency and predictability in the sale of foreign currency to the market. Additionally, in order to reduce its footprint and increase the level of competition in the foreign currency market, the BOJ, on 25 October 2017, reduced the foreign currency surrender requirement by 5.0 pps to 20.0 per cent. Following these developments, there was evidence of a reduced preference for US dollar holdings and greater two way movement in the exchange rate. Under these circumstances, there was an annual exchange rate appreciation of 2.8 per cent for calendar year 2017 relative to a depreciation of 6.3 per cent in 2016.

2.10.3. Base Money Management

In the context of these developments, the monetary base expanded by 21.1 per cent for 2017, relative to an expansion of 15.1 per cent for 2016 (see **Table 32**). Without the two new entrants to the commercial banking space, the monetary base would have grown by 16.0 per cent. The acceleration in base money was primarily reflected in an increase in the cash reserve holdings of commercial banks largely resulting from the impact of the two entrants to the sector. The impact of the higher cash reserve holdings was partly offset by a moderation in currency issue to 12.9 per cent from 16.6 per cent in 2016. An increase in the NIR of $62.4 billion (US$488.9 million) was the main source of expansion in the monetary base during 2017 and was largely influenced by net Public Sector Entities purchases.

2.10.4. Market Determined Interest Rates

An overall improvement in liquidity conditions, the lowering of BOJ's policy rate and continued strong demand for liquid assets over 2017 contributed to declines in the yields on all GOJ T-Bills and PMMR.[32] The weighted average yields (WATBY) on the GOJ 90-day, 180-day and 270-day T-Bills declined by 150 bps, 193 bps and 129 bps to 4.18 per cent, 4.63 per cent and 5.45 per cent, respectively (see **Table 34**). These lower WATBY were largely reflected in the December 2017 quarter when there were reductions of 80 bps, 82 bps and 87 bps in the 90-day, 180-day and 270-day tenors, respectively. Of note, the declines in the WATBY over the December quarter were also impacted by the strengthening of the Jamaica Dollar vis-a-vis the US dollar.

Similar to average yields on the GOJ T-Bills, there were declines in the monthly averages of the PMMR for the year. The monthly averages of the interbank (I/B), overnight and 30-day PMMR declined by 346 bps, 239 bps and 250 bps, respectively (see **Table 35**).

[32] Effective April 2017, the GOJ discontinued the offer of its 30-Day Treasury Bill.

Table 32

SUMMARY ACCOUNTS OF THE BANK OF JAMAICA FLOWS - J$ MILLION	2016 Total	2017 Jan - Mar	2017 Apr - Jun	2017 Jul - Sep	2017 Oct - Dec	2017 Total
Net International Reserves (US$)	**282.4**	**53.8**	**- 153.0**	**520.3**	**71.1**	**492.3**
NET INT'L RESERVES (J$)	**67 482.3**	**6 865.6**	**-19 513.2**	**66 378.4**	**9 076.4**	**62 807.3**
Assets	85 793.0	4 493.9	-17 557.4	67 521.1	8 449.0	62 906.6
Liabilities	-18 310.7	2 371.7	-1 955.8	-1 142.7	627.4	- 99.3
NET DOMESTIC ASSETS	**-48 995.9**	**-15 247.2**	**34 215.9**	**-60 246.8**	**8 165.3**	**-33 112.7**
Net Claims on Public Sector	**-8 780.1**	**-25 050.2**	**59 373.9**	**-53 751.2**	**-2 190.2**	**-21 617.7**
- Central Government Deposits	17 997.8	-22 449.0	58 593.4	-53 694.8	2 425.7	-15 124.7
- Government Securities	1 243.4	- 119.5	922.5	- 283.5	1 336.4	1 855.8
- Other Public Sector	504.8	-8 893.4	6 818.0	415.2	-3 988.0	-5 648.2
- Other	-28 526.1	6 411.7	-6 960.0	- 188.1	-1 964.2	-2 700.6
Net Credit to Banks	**-15 397.2**	**-6 780.2**	**-10 992.7**	**-1 643.1**	**-2 658.7**	**-22 074.7**
Open Market Operations	**-13 386.1**	**993.0**	**-32 001.4**	**-9 295.8**	**2 862.9**	**-37 441.2**
Other	**-11 199.5**	**15 590.2**	**17 836.2**	**4 443.3**	**10 151.2**	**48 020.9**
MONETARY BASE	**18 486.4**	**-8 381.6**	**14 702.8**	**6 131.6**	**17 241.7**	**29 694.5**
- Currency Issue	13 977.3	-9 884.6	3 255.4	524.6	18 752.9	12 648.2
- Cash Reserve	4 483.5	1 367.9	10 828.6	3 220.3	1 260.9	16 677.8
- Current Account	25.6	22.3	- 44.0	33.0	- 26.4	- 15.0
Memo:						
NIR Stock (US$MN) e.o.p	2 719.4	2 769.2	2 616.8	3 137.1	3 208.3	3 208.3
Growth in Monetary Base (%)	15.1	- 6.0	11.1	15.7	11.3	21.1
Inflation (%)	1.7	1.0	1.1	1.6	1.5	5.2

Table 33

QUANTITATIVE PERFORMANCE CRITERIA* Monetary Targets as at Dec' 17	Target	Outturn
Non-Borrowed Reserves - US$Mn	**1 780.7**	**2 533.7**
Monetary Policy Consultation Clause- CPI (Inflation) (%)		
Upper band	**8.5**	**8.5**
Point estimate	**-**	**5.2**
Lower band	**1.5**	**1.5**

Table 34

WEIGHTED AVERAGE TREASURY YIELDS (per cent)	30 -day WATBY		90-day WATBY		180-day WATBY		270-day WATBY	
	2016	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
March	5.38	6.10	5.75	6.13	5.83	6.32	-	6.49
June	5.47	-	5.86	5.77	6.01	6.13	6.41	6.50
September	5.84	-	5.86	4.98	5.81	5.45	6.28	6.32
December	5.64	-	5.68	4.18	6.56	4.63	6.74	5.45

Table 35

AVERAGE PRIVATE MONEY MARKET INTEREST RATES	O/N		30-day		I/B	
	2016	**2017**	**2016**	**2017**	**2016**	**2017**
March	4.10	5.08	4.38	6.65	3.85	5.33
June	4.15	3.97	5.54	5.78	4.20	4.72
September	4.33	3.08	5.78	5.19	4.10	3.36
December	5.28	2.89	6.54	4.04	5.76	2.30

2.11. Economic Outlook

2.11.1. Overview

Jamaica's output is projected to grow at a faster rate in 2018 compared to the expansion for 2017. This outlook is mainly predicated on the expected impact of on-going structural reforms, improved confidence in the economy and increased external and domestic demand. Growth in aggregate spending over the near-term is expected to be largely driven by an increase in investment spending and net external demand. From a sectoral perspective, this forecast primarily reflects expansions in Mining & Quarrying, Agriculture, Forestry & Fishing and Hotels & Restaurants. In the context of an expected recovery in agricultural supplies which should result in lower prices and minimal increases in international commodity prices, inflation is expected to moderate in 2018 relative to the rate recorded for 2017.

2.11.2. International Economy

The global economy is projected to expand by 3.5 per cent for 2018 relative to the 3.4 per cent estimated for 2017. With the exception of the US economy, growth in advanced economies is generally projected to decelerate due to the unwinding of monetary policy accommodation as well as a tapering off in investment levels. Growth is expected to accelerate in the USA emanating from increased consumption and investment spending. Notably, growth in emerging market economies is projected to accelerate due to stronger US demand and positive effects of moderate increases in international commodity prices.

Average crude oil prices for 2018, as measured by the West Texas Intermediate (WTI), are forecast to increase within the range of 5.0 per cent to 15.0 per cent relative to an increase of 17.7 per cent for 2017. This projection reflects the impact of a continuation of efforts by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producers, led by

Russia, to restrict crude oil production.[33] Geopolitical tensions may also provide an upside risk. Notwithstanding these factors, the pace of increase in prices is expected to be tempered, particularly, by improved crude oil production in the USA.

The prices of food-related raw materials are projected to increase in 2018 when compared with 2017. This forecasted outturn would reflect a reversal in the trend over the last two calendar years when there was an average decline of 10.0 per cent. The outlook for these commodities in 2018 is consistent with a projection for moderate improvement in global demand. Average wheat prices are expected to increase within the range of 1.5 per cent to 4.5 per cent. Benchmark Thai rice prices are, however, expected to decline within the range of 0.5 per cent to 3.5 per cent while average corn prices are forecasted to remain largely unchanged.

2.11.3. Domestic Economy

2.11.3.1. Inflation

Domestic inflation is projected to decelerate marginally relative to the outturn of 5.2 per cent in 2017, remaining within the 4.0 per cent to 6.0 per cent inflation target range. The moderation in inflation is largely predicated on a recovery in domestic agricultural supplies, which should result in lower costs for these commodities, and tempered increases in international commodity prices, in particular grains. The effect on prices of an improvement in domestic demand is expected to be partly offset by the impact of ongoing fiscal consolidation and the presence of unused capacity.

The primary upside risks to this forecast consist of higher than expected international commodity prices, adverse weather conditions as well as adjustments in administered prices.

2.11.3.2. Growth

The rate of growth in the Jamaican economy is expected to accelerate in 2018 relative to 2017. The economy is expected to expand within the range of 2.0 per cent to 3.0 per cent for 2018, relative to the expansion of 0.5 per cent for 2017. Growth in aggregate spending over the near-term is predicated on improvement in investment spending and net external demand. The main sectors which are forecasted to contribute to output growth are Mining & Quarrying, Agriculture, Forestry & Fishing and Hotels & Restaurants.

The projected growth in Mining & Quarrying is consistent with an expected improvement in capacity utilisation in light of the resolution of operational challenges encountered in 2017, as well as stronger external demand. Growth in Agriculture, Forestry & Fishing should reflect an improvement in domestic crop production due to recovery from periods of drought as well as flood rains in 2017. Additionally, support systems developed through public-private partnerships to increase the sector's resilience against production disruptions should underpin improved growth within the sector.

For Hotels & Restaurants, the projected expansion is based on the continuation of increases in stopover arrivals and visitor expenditure associated with the forecast for acceleration in economic growth in the major source market, the USA. The industry is also expected to benefit from greater room stock, increased airlift and exploration into new markets.

Growth in Manufacturing is forecasted to accelerate largely reflecting the expected impact of efforts of major manufacturing companies to enhance efficiency in the production of food and beverages supported by continued investment. The anticipated enhancement in efficiency is against the background of considerable retooling and outward look for markets.

The main downside risks to this growth forecast are; weak external demand associated with slower growth in Jamaica's main trading partners, uncertainty in international markets, lower than anticipated business and consumer confidence, the postponement of major infrastructural projects and adverse weather

[33] In November 2016, OPEC announced a framework for supply reductions among most of its members, the first time since 2008. This resulted in a reduction in crude production by 1.2 million barrels per day to 32.5 million barrels per day, effective January 2017. The reduction should last for at least six months. Several non-OPEC producers, led by Russia, also announced their intention to reduce production by 558,000 barrels per day, in support of OPEC.

conditions. The main upside risks are: improvement in domestic labour market conditions that leads to wage push inflation and greater than anticipated capacity utilisation.

2.11.3.3. Monetary Policy

Current forecasts imply that inflation is likely to moderate despite the outlook for an acceleration in economic growth relative to 2017. The increase in demand is expected against the background of recovery and greater use of spare capacity, particularly in the Mining Industry. In the context of the forecast for a slight moderation in inflation and in support of the recovery in economic growth, the Bank will continue to maintain its generally accommodative policy stance. However, in cognizance of its mandate for low and stable inflation, the Bank remains ready to address any adverse risks to inflation that may arise. The Bank will also continue to implement monetary policy consistent with achieving the monetary targets outlined under the country's precautionary Stand-by Arrangement with the IMF.

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3. Financial System Surveillance and Policy

3.1. Supervision of Deposit-taking Financial Institutions

3.1.1. Introduction

The legislative framework for Bank of Jamaica's supervision of deposit taking institutions is derived from Section 34A of the Bank of Jamaica Act, 1960 (BOJA).[1] This responsibility refers to licensees operating under the Banking Services Act (BSA) which includes commercial banks, merchant banks, building societies and their associated financial holding companies (FHCs).

Credit unions have been designated by the Minister of Finance and the Public Service as 'specified financial institutions' under the BOJA, as a preliminary step towards placing these institutions under the supervisory oversight of the Bank of Jamaica.[2] This specification currently enables the Bank to obtain information on their operations.

Bank of Jamaica's supervisory responsibilities under the BSA are operationally discharged through the Financial Institutions Supervisory Division (FISD) of the Bank. The principal aims of supervision are to promote the safety and soundness of banks and banking groups as well as the stability of the financial system. The supervisory methodology combines risk-focused on-site examinations of each licensee with on-going off-site monitoring facilitated primarily by prudential reporting requirements.

Specifically, in 2017, following a pilot phase concluded in June, Bank of Jamaica adopted a risk-based approach to supervision for commercial banks, merchant banks and building societies. This will intensify oversight as risk builds up in a financial institution (FI). The risk-based methodology is forward-looking, replacing the long-standing CAMELS methodology and provides the Supervisor with critical information as to how well, or otherwise, risks inherent in licensees' operations are identified and managed by the licensee, as well as how well, or otherwise, licensees are operating within the Board's articulated risk-tolerance levels (see **Section 3.1.2.4**).

Feedback from on- and off-site assessments are provided by the Bank to licensees' management and boards through a composite of formal meetings, official correspondence and written reports on examination findings. Where there are matters requiring remedial actions or evidence of unsafe practices, corrective measures and or sanctions are applied as relevant, pursuant to the governing legislation. Underpinning the entire supervisory process is a constant review of the legal and policy framework as well as supervisory practices to ensure that these remain relevant as financial markets evolve domestically and internationally.

Also, during 2017, the Bank launched the National Financial Inclusion Strategy (see **Appendix D**). This initiative was motivated by the recognised need to achieve an inclusive financial system in Jamaica.[3]

The Bank continued to benefit from varied technical assistance (TA) aimed at developing institutional capacity and strengthening the regulatory frameworks. Further, activities relating to the implementation of the BSA continue to be among the prioritised regulatory imperatives as at end-2017 (see **Section 3.1.2**).

3.1.2. Current Priorities in Banking Supervision

3.1.2.1. Application of the Banking Services Act, 2014

The BSA is the primary legislative tool supporting recent enhancements to Jamaica's regulatory and

[1] Regulatory responsibility for non-deposit taking financial institutions rests with the Financial Services Commission, which has supervisory oversight of the securities, insurance and private pensions industries (see **Section 3.1.3.1**).

[2] By Notice dated 30 June 1999, The Minister of Finance & Planning designated co-operative societies carrying on the business of credit unions as "specified financial institutions" under the Bank of Jamaica Act.

3 This strategy is aimed at increasing the uptake and use of financial products and services by underserved individuals and micro, small and medium-sized firms.

supervisory framework. The enhancements introduced under the BSA are largely informed by assessments of Jamaica's observance of international best practice standards such as the Basel Core Principles (BCPs) for Effective Banking Supervision.[4]

The year 2017 saw the review and development of Regulations, Supervisory Rules and statutory instruments to support the Bank's responsibility, which included Consolidated Supervision Framework, Counterparty Exposure Framework (CEF), Supervisory Approvals and Non-objections, Fit and Proper Assessments and Enforceable Code of Conduct.

During the review year the Bank continued to benefit from varied TAs aimed at enhancing the Bank's capacity in this area and strengthening the regulatory frameworks. Further, activities relating to the implementation of the BSA continue to be among the prioritised regulatory imperatives as at end-2017.

i. Consolidated Supervision Framework

In 2017, major developments brought about by the enhancement of the consolidated supervision framework included:

a. The draft Banking Services (Capital Adequacy) Regulations; and

b. The draft Banking Services (Financial Holding Companies) (Licence Application) Rules.

The Bank received the Chief Parliamentary Council's (CPC's) draft copies of both regulations and was in the process of preparing comments for resubmission as at end-2017.

ii. Counterparty Exposure Framework (CEF)

During the year, the Bank of Jamaica and the Financial Services Commission formed a joint working group to evaluate and assess the prudential limits of FIs and financial groups to reflect internationally agreed standards for the measurement of large exposures and strengthen provisions addressing counterparty exposures.

The joint working group issued a consultation paper at end-October 2017, proposing regulatory and supervisory changes for the effective management of counterparty exposures of financial institutions and financial groups. Key aspects proposed include:

a. A prescribed limit of 25% of a regulated financial institution's eligible capital base for large exposures to a counterparty or a group of connected counterparties, at the entity and consolidated group level;
b. The criteria for identifying a group of connected counterparties;
c. FHC obligations under the framework of consolidated supervision; and
d. Exposures that are exempt for the purposes of the CEF.

At end-2017, the Bank continued to benefit from feedback provided by the industry and other relevant stakeholders on the consultation paper.

iii. Supervisory Approvals and Non-objections

On 10 July 2017, the Bank published the Standard of Sound Practice on Agent Banking and other related guidance to the industry to facilitate the implementation of the framework.

In October 2017, one Supervisory non-objection was issued for the establishment of a new delivery channel through the engagement of third-party agents.[5] By leveraging its existing network while utilizing the agent banking regime, it is proposed that customers will gain access to banking services such as:

- Deposits;
- Withdrawals;
- Payment of Loans and Credit Cards;
- Issuance of Debit Cards; and
- Requests for other banking services.

[4] The Basel Core Principles are international best practice standards for Banking Supervision which are established by the Basel Committee on Banking Supervision.

[5] The Banking Services (Deposit-taking Institutions) (Agent Banking) Regulations 2016, proffers that the establishment of any agent network follows a two-phased process where the outcome of phase one is a Supervisory Objection or Non-Objection to establish a new delivery channel pursuant to section 55 of the Banking Services Act, 2014.(BSA). Where a non-objection was obtained in phase one, phase two requires the licensee to apply for the Supervisory Committees' approval to appoint individual agents, pursuant to Section 108 of the BSA.

iv. Fit and Proper Assessments

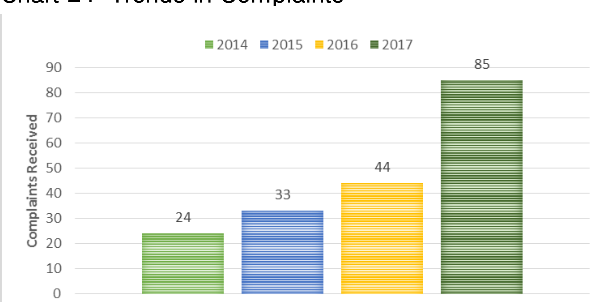
In July 2017, a revised Standard of Sound Practice on Fit and Proper Assessments ("the Standard") was approved by the Supervisory Committee (see **Section 9: Governance**). The Standard outlines, among other things, that it is the responsibility of the DTIs to ensure that the individuals who are concerned with the management or control of agents are fit and proper.

iv. Enforceable Code of Conduct

Pursuant to the requirements under the transitional arrangements of the Banking Services (Deposit Taking Institutions) (Customer Related Matters) Code of Conduct, 2016 ("The Code"), DTIs submitted their action plans of measures to bring their operations, policies and procedures in compliance with the Code within the transition period which ended 31 August 2017. The effectiveness of these measures will be tested during the on-site examination process in 2018.

During 2017, 85 complaints were reported to the BOJ representing an increase of 93.1 per cent over the 44 reported for 2016 and continuation of an upward trend since 2014 (see **Chart 24**). The Bank continued to facilitate resolution of complaints submitted for its attention and saw a resolution rate of 41.2 per cent over the period. [6]

Chart 24: Trends in Complaints[7]



Source: Statistics compiled by the Code of Conduct Unit, FISD

In continuance of efforts to promote transparency and access to information by consumers to data on fees and charges offered by DTIs, Bank of Jamaica published on its website the annual suite of information on fees and charges for products and services offered by all DTIs.

3.1.2.2 Special Resolution Regime

In February 2017, members of the Financial Regulatory Committee (FRC), comprising the Ministry of Finance and the Public Service, the Bank of Jamaica, the Financial Services Commission and the Jamaica Deposit Insurance Corporation, jointly published a consultation paper seeking stakeholder feedback for the development of a special resolution regime (SRR) for Jamaica.

The proposed SRR framework seeks to bring Jamaica's framework for the resolution of FIs in line with international standards issued by the Financial Stability Board under its Key Attributes of Effective Resolution Regimes for Financial Institutions. This will facilitate the orderly resolution of non-viable FIs in Jamaica.

Following the review of stakeholder feedback to the consultation, the Bank and other FRC stakeholders submitted proposals concerning the SRR to Cabinet. A Technical Working Group (TWG) commenced oversight of the development of drafting instructions for legislative measures to introduce the SRR after the approval by Cabinet in October 2017.[8]

3.1.2.3. Basel II and Basel III Implementation

The Bank of Jamaica advised licensees of its intent to streamline and implement elements of the Basel II and III frameworks. The Bank intends to phase the implementation of these measures over a 36-month timeline. Implementation of this programme is scheduled to commence in the second quarter of 2018 with full implementation set for the second quarter of 2021.

- Phase 1

  The first phase of the programme will include consultation and implementation of revisions to the Pillar 1 minimum capital adequacy

[6] Resolution rate means the DTI has responded and concluded the matter with the customer.
7 Office of Consumer Compliants unit, FISD

[8] The technical working group (TWG) was established by the FRC to advance the development of proposals regarding the SRR.

framework, covering operational risk, market risk and credit risk amendments.

- Phase 2

  The penultimate phase of the programme will include the consultation and implementation of Pillar 2 – the Internal Capital Adequacy Assessment Process and the Supervisory Review and Evaluation Process. This second phase will also cover the consultation, and implementation of the framework for designating Domestic Systemically Important Financial Institutions (D-SIFIs).

- Phase 3

  The final phase will focus on Pillar 3 concerning Market Discipline, as well as consulting on and implementing additional measures, including, Capital Buffers, the Net Stable Funding Ratio and the Liquidity Coverage Ratio.

3.1.2.4. Risk-Based Supervision (RBS)

In 2017, the Supervisory Authority continued the work to enhance its processes for the supervision of DTIs through the development and implementation of a risk-based methodology.[9] The new approach allows for the application of supervisory procedures that are commensurate with the level of risk of the institution.

Following a successful completion of the RBS pilot project in August 2017, the methodology will be implemented on a phased basis commencing in the first quarter of 2018 and will be subsequently integrated into the Bank's consolidated supervision framework.

3.1.2.5 National Risk Assessment (NRA)

The Bank in early 2017 requested TA from the World Bank to undertake a more comprehensive National Risk Assessment. Assistance was provided through the proposed use of the World Bank's NRA Tool to complete the assessment. Specialists from the World Bank have commenced training members of the National Anti-Money Laundering Committee (NAMLAC), including the Bank of Jamaica representatives. The process is anticipated to last between eighteen (18) and twenty four (24) months.

3.1.2.6. International Best Practice Standards– Supervisory Approach

i. *Guidance on Problem Assets and Provisioning*
   International standards on problem assets and provisioning consists of a number of enhanced requirements. These include, inter alia, outlining regulatory expectations regarding the implementation and application of expected credit loss (ECL) accounting frameworks; providing guidance on procedures and prudential practices for identifying, monitoring and treating with problem assets; and requiring the application of a more proactive approach to dealing with problem assets and provisioning.

   This guidance will be updated based on the Bank's implementation of the Basel II and III frameworks and International Financial Reporting Standards (IFRS), specifically IFRS 9. Release of the guidance is scheduled for the end of the first quarter of 2018. Currently, there are seven supervisory principles for problem asset management and provisioning, which are:

   a. role of Board of Directors and Senior Management;
   b. portfolio reviews and monitoring of credit quality;
   c. problem asset identification;
   d. credit risk classification;
   e. risk mitigation;
   f. mechanisms to ensure timely provisioning; and

9 The RBS methodology is informed by emerging supervisory practices internationally, including the BCPs.

g. policies and processes governing credit risk management.

ii. Anti-money Laundering, Combatting the Financing of Terrorism (AML/CFT) and Proliferation of Weapons of Mass Destruction (PWMD) Rules

The AML/CFT Unit continued on-site examinations using the risk-based methodology during the review year. Deficiencies have been identified in aspects of licensees' respective frameworks, but entities have continued to comply with remediation requirements.

In 2017, drafting instructions were issued for the development of AML/CFT rules under the BSA and BOJA. This was in order to bring into effect the enforceable measures provided for in the Guidance Notes and to support the Bank's oversight regime concerning AML/CFT.

Bank of Jamaica also issued its request to the Ministry of National Security and the Ministry of Foreign Affairs and Foreign Trade for the revised Guidance Notes concerning AML, CFT and PWMD to be published in the Gazette in 2017.

The Bank continued its sensitization of the industry by disseminating twenty-five (25) notices relating to AML/CFT matters to FIs (including UN Designations) during 2017.

3.1.2.7. Basel Core Principles for Effective Supervision – Self Assessment

During the year, Bank of Jamaica began the process of updating its self-assessment of Jamaica's observance of the Basel Core Principles for Effective Banking Supervision. This was done as part of the Bank's preparation for the country's next Financial Sector Assessment Programme (FSAP), to be conducted jointly by the World Bank and the International Monetary Fund in the second quarter 2018.

3.1.2.8. Supervision of Credit Unions

Deliberations between the Ministry of Industry, Commerce, Agriculture and Fisheries and the Bank of Jamaica continued during 2017 on drafted Legislation to establish a formal supervisory framework for Credit Unions.

3.1.2.9. Caribbean Financial Action Task Force (CFATF)

The completion and publication of Jamaica's Mutual Evaluation (MEV) report was accomplished in January 2017. This accomplishment demonstrated the country's compliance with AML/CFT measures in relation to the FATF 40 recommendations.[10]

In this regard, the Bank of Jamaica commenced work toward the development of a tool to support off-site risk-based AML/ CFT supervision in line with FATF recommendations and local legislation.[11]

Over the review period, the Bank received TA from the CFATF Secretariat and the US Treasury Department with regard to Standards Training for examiners. These TAs included training of other public sector stakeholders such as the Financial Investigations Division and competent authorities for the designated non-financial businesses and professionals (DNFBPs), and the preparation of a revised on-site AML/CFT examination manual.[12]

3.1.3. Supervisory Co-operation and Interaction

3.1.3.1. Financial Regulatory Committee

The FRC held nine meetings during the course of the year, and continued to facilitate information sharing,

[10] The FATF Recommendations are the internationally endorsed global standards against money laundering and terrorism financing.

[11] Bank of Jamaica is the Competent Authority for licensees under the BSA pursuant to The Proceeds of Crimes Act and The Terrorism Prevention Act, and is responsible for monitoring compliance with legal requirements. The Competent Authority is also tasked with issuing guidelines regarding effective measures to prevent money laundering and terrorism financing within licensees.

12 Competent authority, which has the meaning assigned to it per Section 91(1)(g) of POCA is an entity or authority authorized by the Minister to monitor compliance and issue guidelines to businesses in the regulated sector.

coordination and cooperation among regulatory authorities (see **Section 9: Governance**).

3.1.3.2. The Caribbean Group of Banking Supervisors (CGBS)

During 2017, Bank of Jamaica continued to administer the Secretariat of the CGBS. In July 2017, Antigua and Barbuda hosted the XXXV Annual Conference under the theme "Impact of Information Technology on Supervision", as well as a members' meeting at the end of the Conference. Six training programmes were organized and held for the region with facilitators from the Federal Reserve System of the USA, Caribbean Regional Technical Assistance Centre (CARTAC) and the Association of Banking Supervisors of the Americas (ASBA).[13] As is customary, regional supervisory colleges were also convened on the fringes of the annual conference and throughout the year.

3.1.4. The Supervised Environment

3.1.4.1. Overview

Against the background of low and stable inflation, improved aggregate demand and continued growth in the economy, total assets for the 11-member DTI sector increased by 8.0 per cent or $110.7 billion during 2017. The increase was, however, slower than the previous year's growth of 15.2 per cent or $182.3 billion, to total $1 488.5 billion at end-2016. This slowdown in assets growth largely reflected the effect of a deceleration in the rate of expansion in loans year-over-year.[14] Meanwhile, there was strong growth in cash and bank balances of 26.6 per cent or $60.8 billion, occasioned by a net unwinding of investments of 6.2 per cent or $24.8 billion to accommodate the higher foreign currency cash reserves requirement.[15]

In a context of improved confidence in the Jamaica Dollar, the growth in total assets was dominated by domestic currency assets, which expanded by $138.0 billion. In terms of funding sources, the asset growth was largely financed by customer deposit net-inflows of 11.7 per cent or $103.0 billion, 89.2 per cent of which was denominated in domestic currency. Increased shareholders' equity of 7.5 per cent or $14.8 billion was the other key funding source for DTIs during the review period.

The total number of licensed DTIs operating in Jamaica was unchanged at eleven (11) for the fourth consecutive year (see **Tables 36 and 37**). However, there was some re-alignment in the DTI sector with Jamaica National Building Society and JMMB Merchant Bank Limited transitioning to the commercial banking sub-sector in February 2017 and August 2017, respectively. Consequently, the number of licensed commercial banks in Jamaica increased to eight (8) from six (6), while the building societies and merchant banks sub-sectors both contracted by one (see **Table 36**).

Table 36

MARKET COMPOSITION
(Number of Licensed Deposit-taking Institutions*)

Supervised Entities	2013	2014	2015	2016	2017
Commercial Banks	7	6	6	6	8
Merchant Banks	2	2	2	2	1
Building Societies	3	3	3	3	2
Total	**12**	**11**	**11**	**11**	**11**

The proposal by the Minister of Finance and the Public Service for assumption by the Bank of Jamaica of full supervisory responsibility for credit unions, which numbered 28 as at 31 December 2017, will result in significant expansion of the supervised deposit-taking population. (see also **Section 7.0 Credit Unions)*

Table 37

LICENSED DEPOSIT-TAKING INSTITUTIONS
as at 31 December 2017

Sub-sector	Institution Name	Related Deposit-taking Institution
Commercial Banks	Bank of Nova Scotia Jamaica Limited (BNSJ)	*Scotia Jamaica Building Society*
	Citibank N. A. (CBNA)	
	FirstCaribbean International Bank (Jamaica) Limited (FCIBJ)	
	First Global Bank Limited (FGB)	
	JMMB Bank Limited (JMMB Bank)	
	JN Bank Limited (JN Bank)	
	National Commercial Bank Jamaica Limited (NCBJ)	
	Sagicor Bank (Jamaica) Limited (SBJL)	
Merchant Banks	MF&G Trust and Finance Limited (MF&G)	
Building Societies	Scotia Jamaica Building Society (SJBS)	*Bank of Nova Scotia Jamaica Limited*
	Victoria Mutual Building Society (VMBS)	

During the year, DTIs continued to extend their service delivery channels through non-traditional and technology-based media such as internet banking, mobile banking and Automated Teller Machines (ATMs). In this context, expansion in the physical

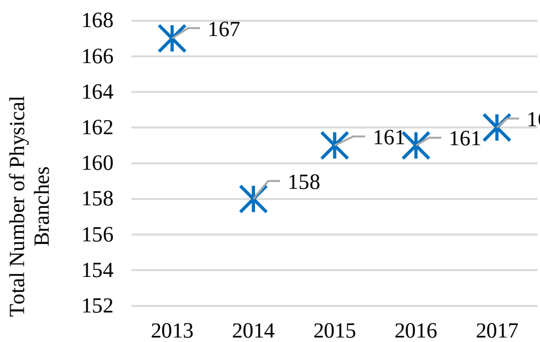
[13] The Bank continues to be a member of the regional group, ASBA, and has concluded its term as the Caribbean representative on the ASBA Board at end-2017. During the year, the Bank remained an active contributor to the work of the organization.

[14] 6.4 per cent or 41.3 billion vis-à-vis 18.3 per cent growth recorded for 2016.

15 Largely reflected in increased placements with overseas FIs

(traditional) branch network remained marginal, increasing to 162 locations relative to the 161 locations that obtained at end-2016 and end-2015, respectively (see **Chart 25**).

Chart 25: Expansion in Physical Branch Network for the DTI System 31 December 2013 – 2017



Commercial banks recorded asset growth of 27.0 per cent or $286.2 billion relative to 15.6 per cent or $142.9 billion at end-2016.[16] Meanwhile, following a combined reduction of $179.3 billion in total assets, the market shares of the building societies and merchant banks sub-sectors both fell to 9.1 per cent and 0.1 per cent, respectively. These declines were due largely to the transition of Jamaica National Building Society and JMMB merchant bank to commercial banking status in February and August, respectively. The previous year saw these sub-sectors registering market shares of 20.2 per cent and 2.7 per cent (see **Table 38**).

Table 38

MARKET SHARE (%) OF LICENSED DEPOSIT-TAKING INSTITUTIONS As at 31 December						
	Dec-2015		Dec-2016		Dec-2017	
Sub-sector	J$BN	%	J$BN	%	J$BN	%
Commercial Banks	918.4	76.8	1,061.3	77.0	1,347.5	90.8
Buildings Societies	246.8	20.6	278.7	20.2	135.2	9.1
Merchant Banks	30.4	2.5	37.9	2.7	2.0	0.1
System Total	**1,195.6**	100.0	**1,377.9**	100.0	**1,484.8**	100.0

Despite the introduction of two new banks to the sub-sector, National Commercial Bank Jamaica Limited (NCBJ) and Bank of Nova Scotia Jamaica Limited (BNSJ) remained market share leaders in the commercial banking space, albeit accounting for a relatively smaller proportion of the sub-sector's asset base at end-2017 [62.4 per cent, compared with 73.3 per cent the previous year] (see **Chart 26 and 27**).

Chart 26: Market Share of Licensees in the Commercial Banking Sub-Sector 31 December 2016

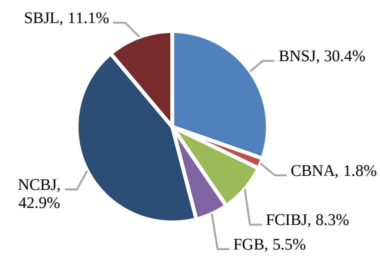
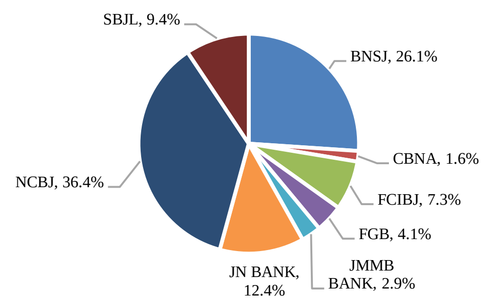
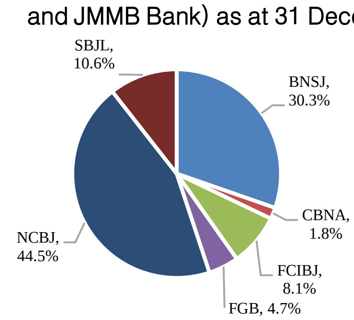


Chart 27: Market Share of Licensees in the Commercial Banking Sub-Sector 31 December 2017



Excluding the entry of the two new banks, NCBJ and BNSJ accounted for 73.7 per cent of total commercial bank assets as at end-2017 (see **Chart 28**).

Chart 28: Market Share of Licensees in the Commercial Banking Sub-Sector (excluding JN Bank and JMMB Bank) as at 31 December 2017



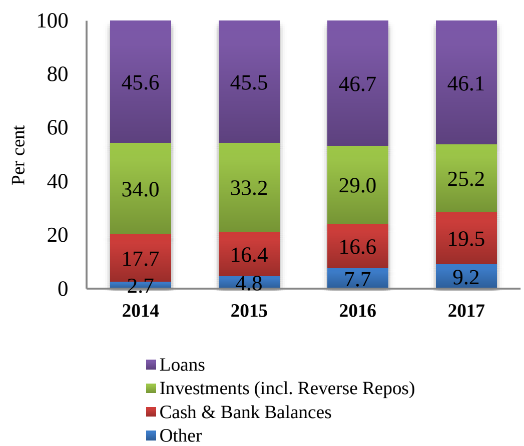
3.1.4.2 . Balance Sheet Profile

[16] In light of the transition of Jamaica National Building Society and JMMB Merchant Bank to commercial banking status, commercial banks accounted for 90.8 per cent of the DTI sector (vs. 77.0 per cent at end-2016).

Loans & Advances

Net credit extended by DTIs expanded at a slower rate of 6.4 per cent or $41.3 billion during 2017, relative to growth of 18.3 per cent or $99.5 billion for 2016, to yield stock total of $684.4 billion as at end-2017. The notable slowdown in net loan disbursements was largely attributable to the repayment of a large foreign currency facility extended by a DTI to the non-deposit taking financial sector during 2016, as well as net repayments by manufacturers and entities within the telecommunications sector. Another notable development contributing to the slowdown in bank loans during 2017 was increased corporate financing activities in the equities and exempt distributions markets. In recent times, both the equities and exempt distributions markets have become increasingly attractive financing alternatives for SMEs and corporates. At end-2017, the gross stock of loans retained the largest share of DTIs' assets with 46.1 per cent, albeit slightly lower than the previous year's share of 46.7 per cent (see **Chart 29**).

Chart 29: Profile of System Assets
31 December 2014 – 2017



In keeping with improved confidence in the Jamaica Dollar that supported foreign exchange market stability, net loan disbursements in domestic currency dominated total growth in loans for 2017 with $59.5 billion compared with the $57.9 billion recorded in 2016. Meanwhile, foreign currency denominated loans contracted considerably by US$115.6 million or $18.3 billion, relative to growth of US$258.5 million or $41.6 billion in 2016, due largely to the aforementioned loan repayments.

Investments

During 2017, there was net unwinding in investment securities (including securities acquired under reverse repurchase agreements) of 6.2 per cent or $24.8 billion, in contrast to growth of 0.5 per cent or $1.9 billion reported for 2016. The decline in investments for 2017 brought the stock of investments to $374.6 billion at end- 2017. This decline was solely reflected in net unwinding of foreign currency securities amounting to $36.9 billion or US$230.8 million (largely BOJ certificates of deposit and Government of Jamaica debt instruments), in a context of the early redemption of some outstanding foreign currency denominated notes by the BOJ. Some of the proceeds from the unwinding of investments held by DTIs were used to bolster their Jamaica Dollar liquidity position by way of an increase in short-term domestic currency investments of $12.1 billion (mainly Government of Jamaica Treasury bills and other debt securities). The confluence of the aforementioned developments culminated with the ratio of Investments to Total Assets falling to 25.2 per cent at end-2017, the lowest it has been in the last 10 years.

Cash & Bank Balances

Consequent on the net inflow of resources from the reduction in investments, cash and bank balances grew by 26.6 per cent or $60.9 billion (16.3 per cent or $32.1 billion at end-2016) to total $289.6 billion as at end-December 2017. This significant increase was largely reflected in higher domestic currency holdings of $34.4 billion as DTIs opted to bolster their Jamaica Dollar liquidity via cash and short-term placements with the Bank of Jamaica in a bid to position themselves to capitalize on actual and potential lending opportunities in the increasingly competitive credit market. DTIs also increased their foreign currency cash holdings significantly by US$252.7 million or $26.5 billion to accommodate the higher foreign currency cash reserve requirements, as well as increased placements with overseas FIs. Consequently, cash and bank balances as a proportion of total assets increased to 19.5 per cent as at end-2017 relative to 16.6 per cent as at end-2016.

Liabilities & Shareholders' Equity

Net inflows from customer deposits remained the main funding source for the DTI sector as deposits grew by 11.7 per cent or $102.4 billion during 2017. This was a stronger pace of growth than the previous year's 13.8 per cent or $106.4 billion, to total $980.3 billion at end-2017. The higher deposit base largely reflected domestic currency deposit net inflows of 19.2 per cent or $91.3 billion, relative to the prior year's performance of 11.7 per cent or $49.8 billion, and was in keeping with the improved confidence in the domestic currency and domestic economic activity. Foreign currency deposits for 2017 grew at a reduced pace of US$178.3 million or $11.1 billion relative to growth of US$261.9 million or $56.5 billion recorded for 2016, as depositors increasingly favoured domestic currency deposits on account of the significant appreciation in the Jamaica Dollar during the latter half of the 2017.

Having garnered adequate deposits to fund their obligations and asset growth, DTIs reduced borrowed funding (including securities sold under repurchase agreements) by 12.3 per cent or $27.2 billion to $193.4 billion during 2017. This was in contrast to increased borrowed funding of 32.7 per cent or $54.4 billion during 2016. The attendant net repayments in DTIs' borrowed funds portfolio for 2017 was concentrated in foreign currency borrowings of US$237.6 million or $34.3 billion, as entities opted to net amortize loans as well as to not roll maturing repurchase agreements obligations with local and overseas counterparties.

DTIs' shareholders' equity recorded an increase of 7.5 per cent or $14.8 billion for 2017 relative to 11.6 per cent or $20.6 billion in 2016. The increase in 2017 was on account of continued transfers to retained earnings and statutory reserves funds by banks as well as the issuance of shares by the building societies and merchant banks.

Currency Profile of Balance Sheet

With respect to the year-over-year changes in the currency profile of DTIs' balance sheet, the system's foreign currency denominated asset portfolio registered contraction of 1.2 per cent or US$57.1 million during 2017 to total US$4.6 billion as at end-2017. The performance in the review year was in contrast to the growth of 13.0 per cent or US$530.8 million for 2016. The contraction in 2017 was largely influenced by net unwinding in investment securities of US$230.8 million and repayments on loans & advances of US$115.6 million, which fueled the increase in cash and bank balances of US$252.7 million and sundry assets of US$31.9 million.

Foreign currency liabilities also recorded a reduction of 0.1 per cent or US$2.0 million, compared with growth of 15.1 per cent or US$588.9 million during 2016, to close the year at US$4.5 billion. The decline in foreign currency liabilities in 2017 was influenced by the net contraction of US$237.6 million in foreign currency borrowings relative to growth of US$327.7 million during 2016. Of note, DTIs demonstrated reduced reliance on foreign currency borrowings, occasioned by the aforementioned growth in foreign currency deposits. Additionally, the slowdown in foreign currency liabilities occurred in a context of the improved confidence in the Jamaica Dollar.

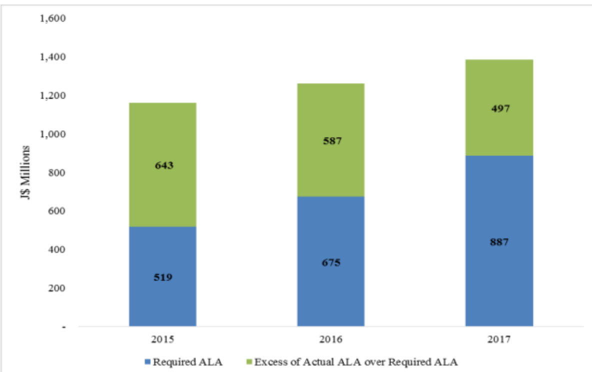
The larger reduction in foreign currency assets relative to foreign currency liabilities narrowed the sector's net foreign currency long position to US$11.7 million at end-2017 from US$37.3 million at end-2016. This indicates that DTIs have begun to move away from the traditional maintenance of large net long foreign exchange positions as a hedge against foreign exchange risk. This is in a context of more consistent two-way movements in the exchange rate since the implementation of several key foreign exchange market reforms and continued stability in the macro-economy.

3.1.4.3 Liquidity

During 2017, the BOJ continued its incremental increase of the statutory minimum for foreign currency reserves holdings, increasing the cash reserves by 3.0 percentage points to 15.0 per cent which resulted in an increase in liquid assets reserves requirements to 29.0 per cent. The minimum requirements for the domestic currency counterparts remained unchanged at 12.0 per cent and 26.0 percent, respectively. To meet the new reserves requirement, DTIs made the necessary balance sheet adjustments to ensure compliance.

Arising from the higher US dollar liquid assets held by licensees, the ratio of US dollar liquid assets to US dollar prescribed liabilities expanded to 43.5 per cent at end-2017 from 42.9 per cent at end-2016 (see Chart 30). Similarly, with respect to domestic currency prescribed liabilities, the system held higher average levels of domestic currency liquid assets in the form of cash reserves and Government of Jamaica securities on account of improved confidence in the local currency. Accordingly, there was an increase in the liquid assets ratio to 31.4 per cent at end- 2017 from 27.4 per cent at end-2016.

Chart 30: Excess of Actual ALA Maintained Over Required ALA of DTIs 31 December 2015 – 2017



In terms of DTIs' ability to adequately and prudently fund asset growth throughout the year, there were notable improvements in their loans to deposits ratio and foreign currency deposits to total deposits ratios. Additionally, DTIs' funding profile showed marked improvement during 2017. This was evidenced in the positive gap of 5.0 percentage points between the real growth in deposits (6.7 per cent) relative to the real growth in loans (1.7 per cent). This was in contrast to a negative gap of 4.4 percentage points recorded in 2016 (see Chart 31 and 32).

Chart 32: Real Growth in Loans and Deposits

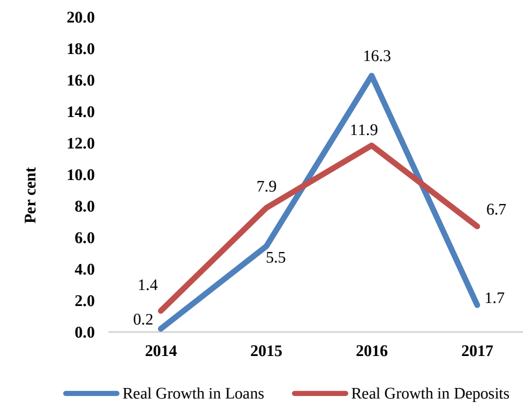
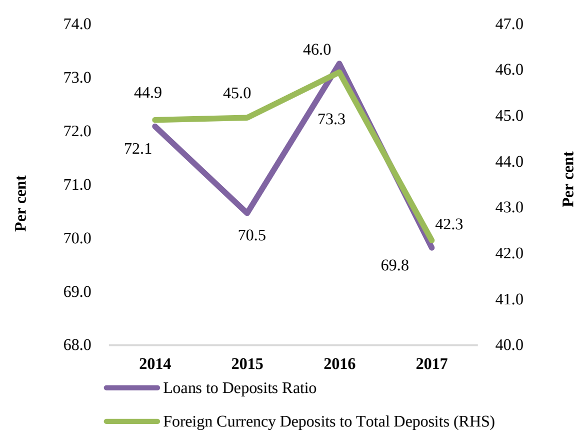


Chart 31: Select Dollarization and Funding Ratios 31 December 2014 – 2017



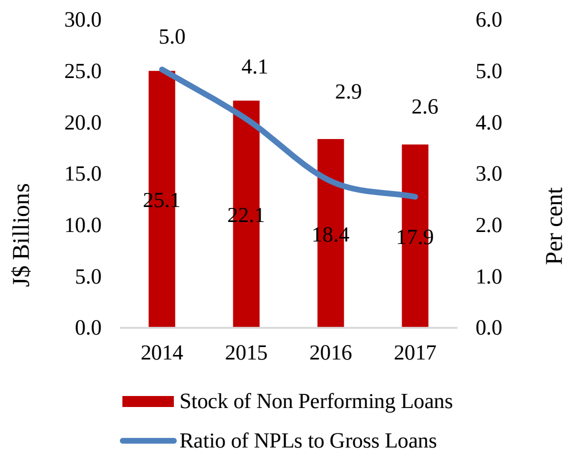
3.1.4.4. Asset Quality

On account of the increased role of credit bureaus in DTIs' credit adjudication processes as well as the favourable macro conditions which persisted during the review year, non-performing loans (NPLs) declined by 2.8 per cent or $0.5 billion to $17.9 billion. This marked the third consecutive year of improvement in DTIs' loan portfolio quality. Consequently, asset quality, as represented by the ratio of NPLs to Total Loans, improved to 2.6 per cent relative to 2.9 per cent at end-2016. This resulted from net repayments and net write-offs within the NPLs portfolio of commercial banks, primarily in the personal loans sub-sector (see Chart 33).

In the context of the improved loan portfolio quality, loan loss provisions, albeit lower, provided added coverage of NPLs at 120.4 per cent compared with

117.5 per cent at end-2016. Given the decline in NPLs, DTIs reduced provisions by $0.1 billion (0.5 per cent) following the contraction of $1.9 billion (8.2 per cent) recorded in 2016. This marginal decline in provisions was in a context of improved credit portfolio monitoring and administration standards by DTIs via increased utilization of credit bureau data. Combined, regulatory capital and provisions provided increased NPLs coverage of 996.7 per cent, up from 906.4 per cent for 2016.

Chart 33: Stock of NPLs (3 Months & Over) with Ratio of NPLs to Gross Loans



3.1.4.5. Regulatory Capital

Total regulatory capital strengthened by 5.9 per cent or $8.1 billion to total $146.0 billion at end-2017, adding to the significant growth of 14.4 per cent or $17.4 billion reported in 2016. Expansion for the review year was concentrated in the commercial banking sub-sector and was organically generated from realised profits which supported increased transfers to statutory reserve funds. Consequently, the primary ratio (regulatory capital: total assets) improved marginally to 10.6 per cent (10.5 per cent at end-2016). Despite the growth in regulatory capital, a relatively faster rate of growth in risk-weighted private sector loans and other sundry assets resulted in a slightly lower risk-weighted capital ratio (regulatory capital to risk-weighted assets and foreign exchange exposures) of 14.6 per cent (14.8 per cent at end-2016). Notably, all DTIs reported primary and risk-weighted capital adequacy ratios above the statutory minimum requirements of 6.0 per cent and 10.0 per cent, respectively.

3.1.4.6. Profitability

Unaudited data submitted to the BOJ for end-2017 revealed that system pre-tax profits remained flat at $37.6 billion relative to end-2016. Gross revenue increased by 9.2 per cent or $13.0 billion, primarily generated from interest income on loans ($6.5 billion) and earnings from fees and other charges ($7.6 billion), which offset higher operating expenses of 13.3 per cent or $14.0 billion. The significant growth in expenses relative to the previous year was due to higher staff costs, interest expenses on deposits and borrowings, miscellaneous fees and other costs.

Notwithstanding favorable credit conditions and continued appetite for debt by households and corporates, net interest income increased by $5.1 billion, slightly below the $5.6 billion recorded for 2016. Consequent on the aforementioned slowdown in the growth in DTIs' assets base along with relatively flat net interest income, the Net Interest Margin for the system improved marginally to 6.4 per cent at end-2017 from 6.2 per cent at end-2016.

Commensurate with the wider income base relative to slightly reduced profits, the pre-tax profit margin for the system for 2017 closed at 24.5 per cent relative to the 26.7 per cent recorded for 2016. Return on Average Assets (ROA) also fell slightly to 2.6 percent for 2017 from 2.9 per cent for 2016.

3.1.4.7 Outlook

With the preservation of stability in the economy, the low interest rate regime and sustained demand for credit, DTIs are expected to continue to perform positively over the short to medium-term. This should be registered in DTIs' profitability, liquidity, funding profile (i.e. the gap between real rate of growth in deposits vs real rate of growth in loans). Further, there is also expected to be continued favorable trend in loan portfolio quality as the credit risk levels are held in check. The maintenance of adequate levels of capital to buffer the expected increase in DTIs' risk profile over the medium-term will be a critical factor for continued positive performances and the preservation of safety and soundness within the DTI sector.

3.1.5. Credit Unions

3.1.5.1. Proposed Bank of Jamaica (Credit Unions) Regulations

Credit unions were "specified" under the Bank of Jamaica Act in July 1999 which allowed the Bank of Jamaica to gather information via on-site examinations and off-site prudential monitoring, as an interim measure. The legislation that will establish the supervisory oversight of the credit union sector by the Bank of Jamaica is currently being drafted and will involve the passage of two companion pieces of legislation through Parliament:

a) A Credit Union (Special Provisions) Act; and

b) An amended Co-operative Societies Act (CSA).

The draft bills are being reviewed by the Bank of Jamaica. Once the proposed Bills have been signed off by all stakeholders, they will be forwarded to the Legislation Committee of the Cabinet for confirmation of readiness for tabling in Parliament and debate. Passage of both pieces of legislation will result in the BOJ spearheading the process for the licensing of credit unions by the Minister of Finance and the Public Service.

During 2017, discussions were ongoing between the Jamaica Co-operative Credit Union League Limited (the League) and the JDIC with respect to coverage of credit unions under its deposit insurance scheme. It is anticipated that agreement on this matter will be arrived at in short order.

Oversight responsibility for the credit union sector, in the interim, remains vested with the Department of Co-operatives and Friendly Societies as the statutory oversight agency, while an industry self-regulatory role is assumed by the League.

The Credit Union Oversight Department (CUOD) continues preparations for the commencement of the regulatory regime. As such the CUOD undertook on-site visits of a number of credit unions during the period and engaged in active dialogue with the sector on developments therein. Sensitization sessions are also proposed to be held with key stakeholders within the sector in anticipation of the Bank receiving applications for licensing under the new Regulatory regime. However, the projected timeline will be determined by the timeliness with which the draft legislation is tabled and enacted.

Other activities anticipated subsequent to the enactment of the Credit Union (Special Provisions) Act include the development of a framework to cover Specially Authorized Credit Unions.

3.1.5.2. Credit Union Sector Performance[17]

Merger activities continued in 2017 with the sector contracting to 28 from 32 at the end of the previous year. The contraction in the sector was also reflected in the branch network, as credit unions deployed their services to members through 90 branches, sub-branches and agencies, compared to 91 at end-2016.

Total assets of $103.2 billion was reported at the end-2017, an increase of 7.9 per cent or $7.6 billion above the $95.6 billion reported at end-2016. This comprised largely loans (mainly consumer loans) totalling $71.2 billion at end-2017, compared to the $63.7 billion reported at end-2016, an increase of $7.5 billion (11.8 per cent). Investments increased, by $5.5 billion (35.9 per cent) to total $20.8 billion at end-2017. In contrast, there was a decrease in Cash and Placements of $4.4 billion (44.9 per cent) to $5.4 billion at the end of the review year.

Asset growth was mainly funded by an increase of $5.6 billion or 7.6 per cent in the Savings Fund, which totalled $79.0 billion at end-2017. The outturn was largely boosted by growth of $4.3 billion or 22.3 per cent in fixed and term deposits totalling $23.6 billion at end-2017. Notwithstanding, member's savings remained the largest component of Savings Fund ($55.4 billion), reflecting an increase of $1.3 billion (2.4 per cent) for the year (see **Table 39**).

Based on unaudited prudential returns submitted to the Bank of Jamaica at end-2017, the annual surplus for the sector increased by $0.5 billion or 38.5 per cent

[17] Figures quoted are preliminary.

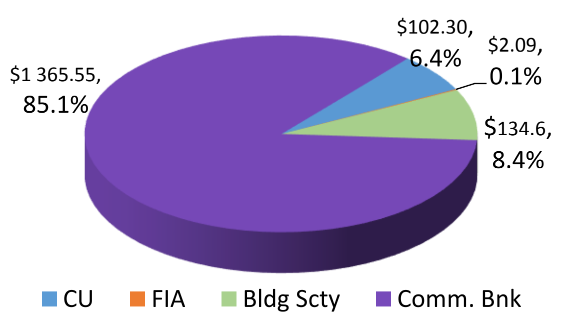
to $1.8 billion, relative to end-2016. This growth was reflective of a faster rate of increase in total income of $0.9 billion or 7.4 per cent as against the increase in expenses of $0.3 billion or 2.8 per cent.[18] Consequently, profitability indicators for the credit union sector improved, particularly the net profit margin and return on asset ratios to 13.8 per cent and 1.7 per cent, respectively (2016: 10.7 per cent and 1.4 per cent).

Table 39

COMPARATIVE KEY CREDIT UNION INDICATORS 2015 - 2017					
INDICATORS	Dec-15 $BN	Change %	Dec-16 $BN	Change %	Dec-17 $BN
Total Assets ($BN)	89.0	7.4	95.6	7.9	103.2
Total Loans ($BN)	59.6	6.9	63.7	11.8	71.2
Total Investment	12.2	25.4	15.3	35.9	20.8
Cash and Placements	10.7	-8.4	9.8	-44.9	5.4
PDL (>3months) ($BN)	2.4	0.0	2.4	8.3	2.6
Capital Base	10.2	9.8	11.2	13.4	12.7
Total Savings Fund ($BN)	67.7	8.4	73.4	7.6	79.0
Members Savings	49.1	10.2	54.1	2.4	55.4
Fixed/Term Deposits	18.7	3.2	19.3	22.3	23.6
Borrowings from JCCUL	1.7	-35.3	1.1	9.1	1.2
EARNINGS PROFILE	$BN	%	$BN	%	$BN
Total Income	11.5	5.2	12.1	7.4	13.0
Interest Income	10.0	4.0	10.4	5.8	11.0
Loans & Advances	8.7	5.7	9.2	5.4	9.7
Investments	0.9	-22.2	0.7	57.1	1.1
Total Expense	10.4	3.8	10.8	2.8	11.1
Interest Expense	2.3	-4.3	2.2	0.0	2.2
Deposits	2.1	-4.8	2.0	0.0	2.0
Members Savings	1.1	-7.1	1.3	-7.7	1.2
Fixed/Term Deposits	0.7	0.0	0.7	28.6	0.9
Net Profits	1.0	30.0	1.3	38.5	1.8
RATIOS					
PDL: Total Loans	4.0%		3.8%		3.7%
Loans: Savings Ratio	88.0%		86.8%		90.1%
Capital Base: Assets Ratio (Primary Ratio)	11.5%		11.7%		12.3%
Profit Margin (Net Profit pre-tax/Total Income)	8.7%		10.7%		13.8%
ROA	1.1%		1.4%		1.7%
DEMOGRAPHIC PROFILE	Dec-15	%	Dec-16	%	Dec-17
Number of Credit Unions (Actual)	34	-5.9	32	-9.4	28

Source: Prudential Data submitted by Credit Unions to the Bank of Jamaica

Chart 34: DTI Asset Portfolio (J$ Billion) as at 31 December 2017



Source: Prudential Data submitted by Financial Institutions to the Bank of Jamaica.

[18] Mainly driven by increased income derived from loans and advances of $0.5 billion and investments of $0.4 billion

3.1.6. Credit Reporting

The Bank as the designated Supervising Authority under the Credit Reporting Act discharged its oversight mandate in the operational and supervisory framework of the credit reporting system in Jamaica. During the review year, the three licensed credit bureaus continued the exchange of information with credit information providers (CIPs). The licensed credit bureaus are as follows:

1. Credit Info Jamaica Limited (CIJL) (Licensed March 2012);
2. CRIF Information Bureau – [formerly CRIF NM Credit Assure Limited] (CRIF IB) (Licensed April 2012); and
3. Credit Information Services Limited (Licensed August 2014).

In 2017, CRIF NM Credit Assure Ltd, a partnership between Massy Technologies Jamaica Limited and CRIF S.p.A. Italy was dissolved, as CRIF took on 100% shares in the bureau and rebranded the entity as CRIF Information Bureau Limited.

Market Activity

During 2017, continued developments in the market were evident in the level of credit reporting activities by the credit bureaus. Specifically, there was an increase in the number of CIPs exchanging credit information with credit bureaus (approximately 18.0 per cent) and credit reports issued (approximately 76.0 per cent) (see Table 40).

Despite 15 new entities signing contracts with credit bureaus during the year, the total number of signed CIPs in 2017 increased by three due to a number of mergers of previously signed providers, as well as the culling by credit bureaus of their CIP databases.[19] During 2017, the number of CIPs submitting data to the three licensed credit bureaus increased to 41 at the end of the review year from 36 at the end of 2016. Consistent with increase in the number of CIPs submitting data, the number of data subjects in credit bureaus' databases grew by 14.0 per cent or 58 862 (see Chart 35). The growth in data subjects resulted in an increased population coverage to 25.0 per cent at end-2017, compared to 22.0 per cent at end-2016.

[19] For reasons such as outdated and/or cancelled contracts

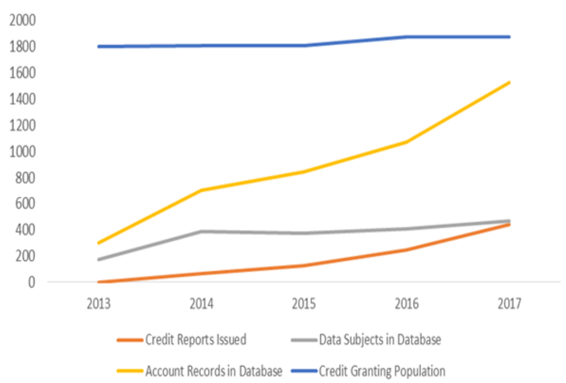
Key performance indicators in the market are reflected below (see Table 40).

Table 40[20]

CREDIT REPORTING ACTIVITY as at 31 December	2013	2014	2015	2016	2017
No. of reports issued during the year (inclusive of free reports)	1 722	69 939	129 698	250 122	442 712
No. of signed credit information providers*	36	53	69	84	87
No. of credit information providers submitting data to credit bureaus	8	18	19	36	41
No. of CIPs pulling data from credit bureaus	9	29	47	63	65
No. of account records in data base of the credit bureau with the largest number at year end	300 393	703 405	846 350	1 070 168	1 525 375

Source: Returns submitted by Credit Bureaus to Bank of Jamaica

Chart 35: Credit Reporting Activities 2013 – 2017 (‘000)



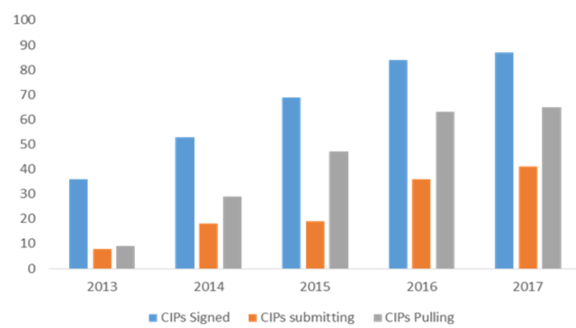
Source: Returns submitted by Credit Bureaus to Bank of Jamaica

3.1.6.1. Consumer Complaints

Pursuant to Section 16(1) of the CRA, a consumer who disputes the accuracy or completeness of any information disclosed by a credit bureau in relation to that consumer may make a complaint in person or in writing to the credit bureau. The credit bureau shall as soon as is reasonably practicable, and in any event not later than 14 days after the complaint is made, take steps to correct or complete the information as the case may require, in order to ensure the accuracy and completeness thereof as pursuant to Section 16(2)(a). Where a consumer is dissatisfied with any step taken by the credit bureau, the consumer may complain in writing to the Supervising Authority within 30 days after receiving the report of his complaint from the credit bureau as pursuant to Section 16(3) (a).

The Bank of Jamaica monitors the credit reporting market to ensure that consumers’ complaints are adequately addressed for resolution within the provisions of the CRA. For 2017, CIJL and CRIF IB reported having received a combined total of 1 281 consumer complaints which represented 0.3 per cent of total credit reports issued during the year (see Table 40).

Chart 36: Credit Information Providers (CIPs) Status 2013 – 2017



Source: Returns submitted by Credit Bureaus to Bank of Jamaica

3.2. Supervision of Cambios and Remittance Service Providers

During 2017, the Bank continued to discharge its regulatory mandate in regard to Cambios and Remittance Service Providers (RSPs) by maintaining a robust regulatory regime to meet the standards of the FATF.

In that regard, licensees remained subject to on-site inspections and rigorous in-house monitoring to test the effectiveness of their AML/CFT compliance regimes as well as monitor operators of cambios. In addition, remittance service businesses remain subject to on-going due diligence under the Bank’s ‘Fit and Proper’ criteria as a condition for the issuance and renewal of licences.[21,22] Against this background, 187 operators were assessed in 2017.

[20] December figures not available as at submission of this document. Data Source Credit Reporting Department

[21] Operators include: Directors, shareholders and managers of Cambios and RSPs)

[22] Shareholders are defined as persons holding 10.0 per cent or more of shares of the relevant company.

3.2.1 Cambios

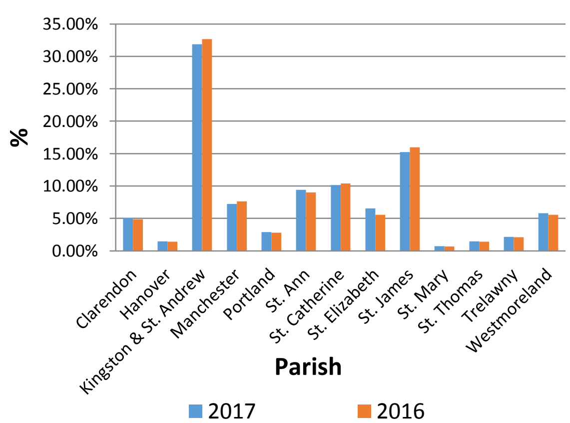
The total number of cambio outlets at end-December 2017 was 138, compared to 144 at end-December 2016 (see Table 41). During the year, two new cambio licences were issued while eight were closed. The latter resulted from seven licences being voluntarily surrendered and one revoked. In addition, two companies ceased offering cambio services which resulted in a reduction in the number of cambio entities to 55 compared to 57 at end-December 2016.

Table 41

STATUS OF CAMBIO LICENCES as at 31 December	2016	2017
New Locations Licensed	1	2
Locations Closed	7	8
Number of Locations	144	138
Number of Companies	57	55

Of note, Kingston and St. Andrew continued to account for the largest concentration of cambio outlets (see Chart 37). In 2017, cambios commanded 38.0 per cent of total foreign currency market purchases, a decrease of 1.5 percentage points relative to 2016.

Chart 37: Geographic Distribution of Cambio Outlets at end-December



3.2.2. Remittance Service Providers

The number of Remittance Service Providers (Primary Agents) declined to eight in 2017 relative to nine in 2016, resulting from the exit of COK Remittance Services Limited. Jamaica remains a net receiver of remittances with inflows mainly from the USA, UK, Canada and the Cayman Islands.[23]

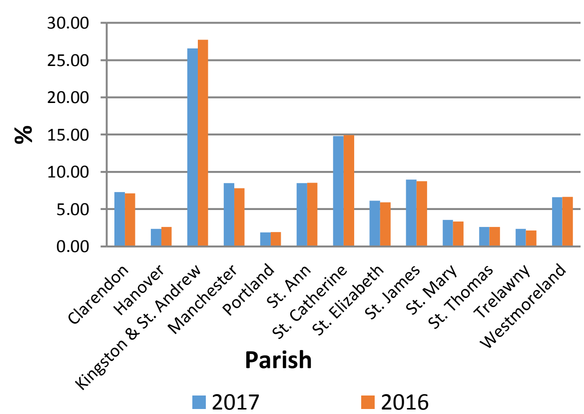
For 2017, 38 new licences were issued to operate at 16 outlets.[24] Concurrently, 51 licences representing 13 outlets were relinquished during the review period. As a result, the number of licensed outlets increased to 425 at end-2017 from 422 at end-2016 (see Table 42).

Table 42

STATUS OF REMITTANCE LICENCES as at 31 December	2016	2017
New Locations Licensed	41	16
Locations Closed	21	13
Number of Locations	422	425
New Licences Issued	82	38
Licences Relinquished/Revoked	61	51
Number of Licences	679	666
Number of Primary Agents	9	8

Notably, the Kingston & St. Andrew region accounted for 27.7 per cent of outlets relative to 27.6 per cent at the end of 2016 (see Chart 38).

Chart 38: Geographic Distribution of Remittance Outlets at end-December



[23] Primary Agents are companies licensed in Jamaica to offer remittance services as agents of remittance companies domiciled overseas. They are authorised to offer the service in Jamaica through sub-agents.

[24] Several RSPs may be granted approval to offer their service at a single outlet, each approval is represented by a licence.

3.3. Financial Stability Assessment of Deposit-taking Institutions (DTIs)

3.3.1 Overview

For the first three quarters of 2017, DTIs remained largely resilient to macro-prudential stress tests due to continued strong capital positions as well as a generally favourable macroeconomic environment.[25,26] In particular, stress test results revealed that the average post-shock capital adequacy ratios (CARs) for the banking system generally remained above the 10.0 per cent minimum benchmark, in response to severe but plausible credit, foreign exchange, interest rate and liquidity shocks. In addition, signals from the Bank's macro-financial and micro-prudential indices remained well below crisis thresholds.

As it relates to credit risk, stress test results showed that the system was largely resilient to hypothetical shocks to non-performing loans (NPLs). The DTIs, in particular the commercial banks, performed credibly in response to these shocks due to the continued improvements in loan quality during the year. Regarding liquidity risk, the DTIs remained resilient to hypothetical shocks to deposit withdrawals under 63.0 per cent. Above this rate of withdrawal, DTIs were left under-capitalised.

Regarding market-related stress tests, DTIs remained generally resilient to hypothetical market factor shocks over the review period. Of note, DTIs' net open position to capital ratio increased only marginally for the nine-month period ended September 2017, relative to end-2016, against the background of a slower pace of depreciation in the exchange rate during this period. Moreover, the sector demonstrated reduced susceptibility to appreciation in the exchange rate. The financial system also demonstrated reduced susceptibility to interest rate shocks as the dollar value of a basis point (DVBP) to capital base ratio declined at end-September 2017 compared to end-2016.

As it relates to financial system stability indices, the Bank's micro-prudential indices (MiPI) for DTI' showed improvement at end-September 2017 compared to end-2016.[27] This performance was due to improvements in the balance sheet indicators of the MiPI. Additionally, the value of the Bank's macro-financial index (MaFI) improved at end-September 2017 relative to end-2016.[28] This performance predominantly reflected lower risk signals from the volatility in exchange rate and the 12-month growth in the private sector credit indicators.

3.3.2. Credit Risk Stress Tests

DTIs' loan quality as measured by the ratio of NPLs to total loans improved as at end-September 2017. In particular, the ratio of NPLs to total loans for DTIs decreased to 2.7 per cent at end-September 2017 from 3.0 per cent at end-2016. The continued improvement in loan quality was primarily reflected in NPLs for the construction, mining and manufacturing

[25] DTIs include commercial banks, FIA licensees and building societies.

[26] The objective of stress testing by the BOJ is to determine the impact of extreme but plausible shocks to various risk factors such as credit quality, foreign exchange rates, domestic interest rates and liquidity on the capital adequacy ratios of the DTIs.

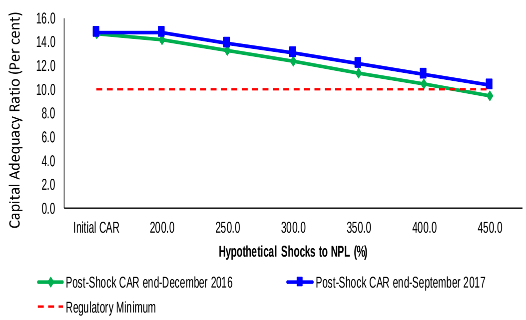
[27] The financial ratios are categorized as follows: ***Balance Sheet Structure*** – Capital as a per cent of assets, loans as a per cent of capital, deposits as a per cent of loans, deposits as a per cent of total assets, liquid assets as a per cent of total assets, deposits & repos as a per cent of assets, public sector loan as a per cent of assets, financial institution loans as a per cent of total loans, investments as a per cent of assets; ***Asset Quality*** – non-performing loans as a per cent of assets, non-performing loans as a per cent of total loans, reserve for loan losses as a per cent of total assets, loans & sectoral loss provisions as a per cent of assets; ***Profitability*** – implicit deposit rates, employee salaries as a per cent of assets, non-interest income as a per cent of assets, interest income as a per cent of assets, net income as a per cent of assets and ***Other Indicators*** – FX liabilities as a per cent of FX assets, FX deposits as a per cent of FX assets, 12-month growth in deposits. The Bank's micro-prudential indices (MiPI) for DTIs comprises 21 key financial ratio indicators.

[28] The macroeconomic indicators are categorized as follows: ***12-Month Measures*** – 12-month growth in CPI, 12-month growth in GDP, 12-month growth in stock market index,12-month growth in private sector credit; ***Fiscal Measures*** – central government deficit as a per cent of GDP, credit to public sector as a per cent of GDP, National debt as a per cent of GDP, external debt as a per cent of GDP, volatility in inflation; ***Other Economic Prices*** – volatility in interest rates, volatility in exchange rates, real lending rate minus real deposit rate, U.S./Jamaica interest rate differential, real T-bill rate, real effective interest rate and ***BOJ Variables*** – BOJ credit to banking sector as a per cent of GDP, M2 as a per cent of net international reserves, money multiplier. The Bank's macro-financial index (MaFI) comprises 18 key macroeconomic indicators.

sectors which together accounted for approximately 7.6 per cent of total loans.

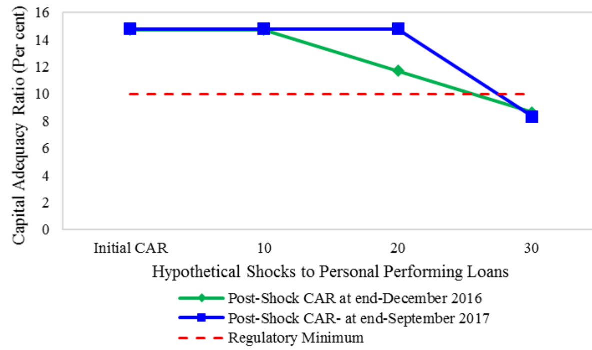
The DTI sector remained robust to hypothetical increases in NPLs at end-September 2017. More specifically, it would require a 457.0 per cent hypothetical increase in NPLs to breach the 10.0 per cent CAR benchmark. This result was primarily influenced by the performance of commercial banks and represents an improvement relative to end-2016, when an increase of 425.0 per cent in NPLs would result in the CAR of the DTI sector falling below the prudential minimum (see **Chart 39**). This higher breaking point for the post-shock CAR for the DTI sector at end-September 2017, largely represents lower NPLs relative to the close of the previous year.

Chart 39: Banking Sector: Impact on CAR from an Increase in NPLs



As a result of hypothetical sectoral shocks to performing loans at end-September 2017, the CAR for the DTI sector continued to be most impacted by shocks to personal loans.[29] Regarding this loan category, a hypothetical shock of 29.1 per cent would result in the CAR of the DTI sector declining from a pre-shock CAR of 14.7 per cent to a post-shock CAR of 9.9 per cent at end-September 2017, breaching the prudential benchmark of 10.0 per cent. Nonetheless, this result represented an improvement relative to that obtained at end-2016, when a reduction of 25.1 per cent in performing personal loans would result in the CAR of the DTI sector falling below the prudential minimum (see **Chart 40**).

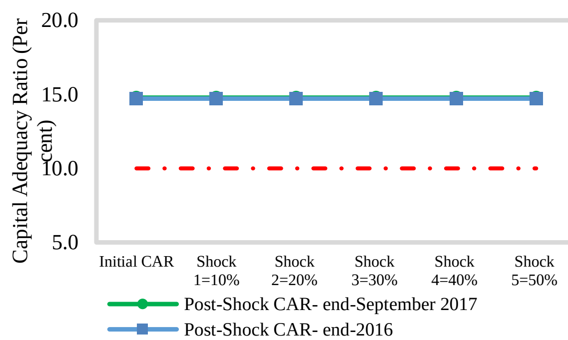
Chart 40 : Banking Sector: Impact on CAR from a Reduction in Performing Personal Loans



3.3.3. Foreign Exchange Risk Stress Test Results

DTIs' susceptibility to foreign exchange risk increased during the review period relative to end-2016. Specifically, the ratio of foreign currency net open position (NOP) to capital increased to 8.5 per cent at end-September 2017 relative to 3.5 per cent at end-2016. However, the banking sector's capital adequacy remained robust to hypothetical depreciation and appreciation shocks ranging from 10.0 to 50.0 per cent (see **Chart 41**).

Chart 41: Banking System Foreign Exchange Risk Stress Test Results[30]



3.3.4. Interest Rate Risk Stress Tests

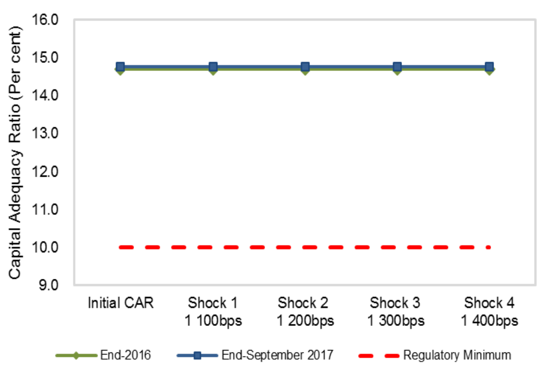
The DTI sector continued to exhibit resilience to the applied interest rate stress tests conducted during

29 Mortgage loans are included in the personal loan category for building societies.

30 These stress tests involve 10.0 per cent to 50.0 per cent depreciation and appreciation in the Jamaica Dollar vis-à-vis the US dollar. Shocks are applied firstly to the exchange rate between the Jamaica Dollar and the US dollar. The corresponding exchange rates of the Jamaica Dollar vis-à-vis the Euro, the Canadian dollar, and the Great Britian Pound were then incorporated based on historical correlations with the selling rate for the US dollar between January and May 2003. The increase in NPLs on foreign currency loans is assumed to be directly related to the proportion of foreign currency loans that are extended to non-foreign currency earners. Additionally, a 100.0 per cent provisioning rate is assumed for loan losses.

2017 as the sector's buffer capital was sufficient to absorb the impact of contemplated shocks. Specifically, following the highest applied set of hypothetical increases of 1 400 bps/400 bps and 350 bps/70 bps in interest rates on domestic/foreign-rate sensitive assets and liabilities, respectively, the sector-CAR for DTIs was unchanged at 14.8 per cent at end-September 2017.[31,32] This result was broadly in line with stress tests results reported for the prior year. Additionally, the DVBP to capital base ratio declined marginally to 10.8 per cent at end-September 2017 relative to 11.2 per cent at end-2016, reflecting an improvement in the system's ability to absorb interest rate shocks (see **Chart 42**).[33]

Chart 42: Banking System Interest Rate Risk Stress Test Results[34]

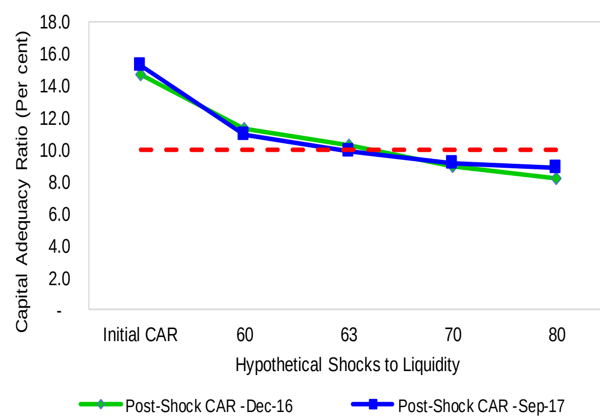


3.3.5. Liquidity Risk Stress Tests

At end-September 2017, the DTI sector remained resilient to a hypothetical sudden withdrawal of deposits of 60.0 per cent. It would take a reduction of 63.0 per cent in deposits at end-September 2017 for the CAR of the overall DTI sector to breach the statutory benchmark of 10.0 per cent.[35] This result was similar to that obtained at end-2016 stronger liquidity position of the banking system during the first three quarters of 2017 (see **Chart 43**).

For the calendar year to end-September 2017, the liquid assets to average prescribed liabilities ratio averaged 29.6 per cent, on a quarterly basis, relative to an average quarterly ratio of 26.2 per cent for 2016. This increase in liquidity was reflected in two of the three DTI sub-sectors. The average liquid assets to average prescribed liabilities ratio for commercial banks and merchant banks increased by 2.5 pps and 2.7 pps, respectively, to 31.7 per cent and 31.9 per cent. Meanwhile, the average liquid assets to average prescribed liabilities ratio for the building societies sector decreased by 4.2 pps to 11.3 per cent.

Chart 43: Banking System Funding Risk Stress Test Results



3.3.6. Aggregate Stress Test Results

The aggregate stress test assessed the impact on the CAR for the banking sector resulting from simultaneous shocks to interest rate, credit quality and deposit withdrawals. The aggregate stress test assumptions were:

- increases of 1 100 bps and 100 bps in interest rates on domestic currency investment assets & liabilities and other assets & liabilities, respectively;

[31] Interest rate increases ranging from 1 100 bps to 1 400 bps and 275 bps to 350 bps are applied to domestic and foreign investment holdings, respectively, for fair value and net interest income assessment. Increases of 100 bps to 400 bps and 15 bps to 70 bps are applied to the domestic and foreign non-investment components, respectively.

[32] Re-pricing net gap positions are computed for each re-pricing bucket. The change in the market value of net re-pricing assets is evaluated by applying the interest rate shock and duration factor to each re-pricing gap position. The impact on capital adequacy is then evaluated.

[33] DVBP is the loss in net interest income generated from shocks to the system's foreign and domestic securities portfolio and reported as a percentage of the system's capital base.

[34] See footnote 8.

[35] Hypothetical reductions are applied directly to the deposit base of the DTI. Assets are assumed to be liquidated, in order of liquidity, so as to satisfy the demand. Haircuts are applied to non-liquid assets to satisfy further declines in deposits. The resulting impact on capital adequacy is then evaluated.

- increases of 100 bps and 10 bps in interest rates on foreign currency investment assets & liabilities and other assets & liabilities, respectively;
- 10.0 per cent depreciation in the JMD/USD exchange rate;
- 100.0 per cent of past due performing loans (1 month to under 3 months) becoming non-performing; and
- 10.0 per cent reduction in deposits.

In response to the abovementioned shocks, the CARs of the DTIs declined by an average of 0.9 pp per quarter for the calendar year to end-September 2017 relative to an average quarterly decline of 1.0 pp for 2016 (see **Chart 44**). Of note, the post-shock CAR of the DTI sector remained above the prudential minimum benchmark during 2017 (see **Table 44**).

Chart 44: Banking Sector: Impact on CAR following Aggregate Stress Test Scenarios

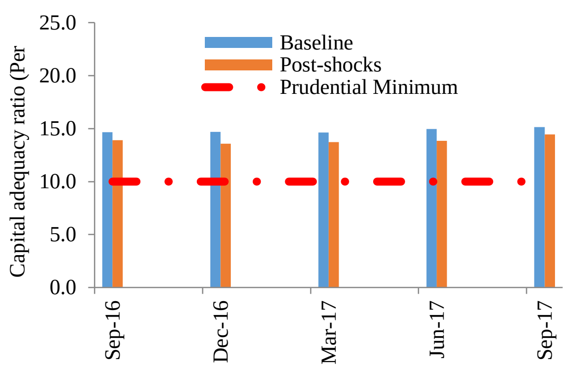


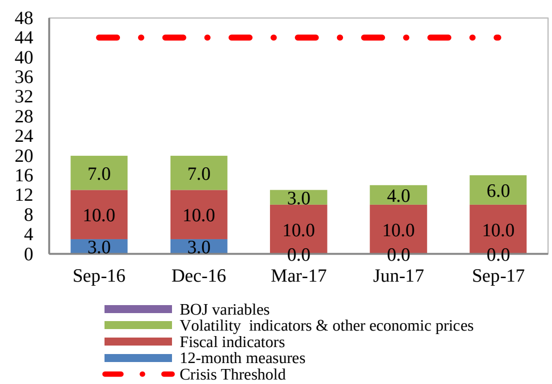
Table 43

DTI's QUARTERLY AGGREGATE STRESS TEST RESULTS							
	2016				2017		
	Mar	Jun	Sept	Dec	Mar	Jun	Sept
Original CAR *(%)*	14.8	14.5	14.7	14.7	14.6	14.9	15.1
Post-Shock CAR *(%)*	13.8	13.4	13.9	13.6	13.7	13.8	14.5
Change in CAR (pps)	-1	-1.1	-0.8	-1.1	-0.9	-1.1	-0.7

3.3.7. Early Warning System Results[36]

The MaFI decreased by 4.0 points to 16.0 points at end-September 2017 relative to end-2016 and remained well below the 1996-1998 financial crisis threshold value of 44.0 points (see **Chart 45**). This outturn largely reflected improvements in the signals from the volatility in exchange rate and the 12-month growth in private sector credit indicators which both decreased to no signal at end-September 2017 relative to 5.0 points at end-2016. The impact of these improvements was partially offset by a deterioration in the signal from the volatility in the inflation indicator which increased in severity to 5.0 points at end-September 2017 from no signal at end-2016.

Chart 45: Macro-Financial Index & Sub-Components

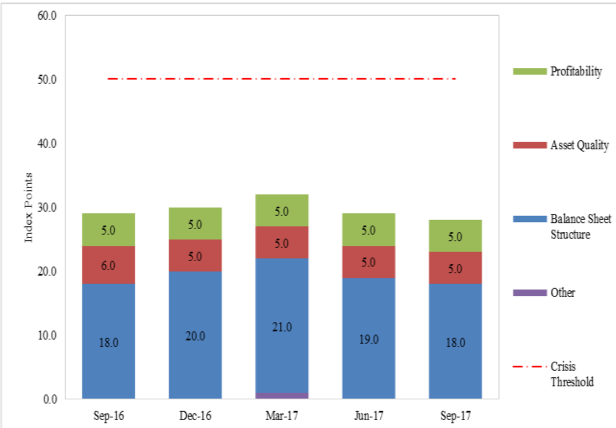


The MiPIs for DTIs improved to 28.0 points at end-September 2017 from 30.0 points at end-2016 and remained below the 1996-1998 financial crisis threshold value of 50.0 points.[37] This outturn reflected an improvement in the signal of the balance sheet structure indicators. Specifically, both the liquid assets to total assets and deposits & repos to total assets indicators decreased to 4.0 points at end-September 2017 from 5.0 points at end-2016.

[36] The BOJ Early Warning System (EWS) for financial stability monitors macro- and micro- economic indicators of the banking sector via a non-parametric approach to signal banking sector vulnerability. The signal is based on EWS scores for each indicator, which is computed based on the number of standard deviations of each indicator from its 'tranquil period' mean value. The tranquil period for both indices has been changed to a fixed period spanning March 2002 to March 2003. The scores range from 0 to 5 with a score of 5 representing the most severe signal. Banking sector vulnerability at a point in time is determined by the trend in the aggregate EWS score (or index) over the previous eight quarters.

[37] Indicators included in the micro-prudential index are weighted by asset size.

Chart 46: Micro-Prudential Index & Signalled Sub-Components for Deposit-Taking Institutions:



3.4 Financial Legislation

During 2017, there was no new legislation governing institutions supervised or regulated by the Bank of Jamaica. However, there were amendments made to the legislative framework.

Bank of Jamaica (Amendment) Act, 2017. In November 2017, the Bank of Jamaica Act was amended to allow for the existing term of a sitting Governor of the Central Bank to be extended for a period of two years. The amendment also permits the appointment to be extended for a further two year period and the terms of existing appointment remain applicable during the period of an extension of term.

3.4.1. Pending Amendments to Financial Legislation

The Co-operative Societies (Amendment) Bill

This amendment to the Cooperative Societies Act will, among other things, bring credit union cooperative societies under the regulatory ambit of the Minister of Finance and the Public Service and the Bank of Jamaica. Accordingly, this Bill includes provisions that will restrict the deposit-taking activities of cooperative societies to those cooperative societies, which operate as credit unions. Other substantive enhancements to the Cooperative Societies Act are contemplated by the Ministry of Industry, Investment, Agriculture and Fisheries (MICAF) (formerly Ministry of Industry, Investment and Commerce (MIIC)), which is the Ministry with portfolio responsibility for cooperative societies. It is anticipated that this Bill will be presented to Parliament jointly with the proposed Credit Unions (Special Provisions) Act which, contains the substantive prudential requirements to which credit unions will be subject once the aforesaid regulatory regime comes into effect. [38]

The Credit Unions (Special Provisions) Bill

A decision was taken to revise the regulatory legal framework that governs credit unions by creating a stand-alone principal statute which will replace the subsidiary legislation (as Regulations under the Bank of Jamaica Act). The requisite Cabinet submission from Ministry of Finance & Public Service (MOFPS) was considered by Cabinet on 01 May 2017 and approved. The Bill contains the framework that was initially proposed as Regulations to bring the operations of credit unions fully under the Bank of Jamaica's prudential supervisory regime. Accordingly, the Bill will cover, among other things, licensing, capital, reserves, prohibited business, remedial and intervention processes as well as defines the role of specially authorized credit unions (see **Section: 3.1 Supervision of Deposit-Taking Financial Institutions**).

The Micro Credit Bill

To address the proliferation of privately-owned money-lending businesses operating in Jamaica, a determination was made for these institutions to be regulated by the Bank of Jamaica. This is to ensure that these services operate within an environment of transparency and accountability and that the operations of these services are not used to facilitate financial crimes. The Bill will create a licensing regime and will incorporate the usual safeguards: of fit and proper requirements for licensees and their owners; establish operating requirements for licensees; and mandate the inclusion of processes to address complaints. The regime will accord the standard

[38] The proposed regulatory regime was scheduled to be addressed through Regulations under the Bank of Jamaica Act i.e. the Bank of Jamaica (Credit Union) draft Regulations).

regulatory powers to conduct inspections, examine the records of licensees, impose regulatory sanctions for non-compliance and issue standards and guidance as well as a Code of Conduct for the money-lending services that will be governed by this legislation. Penalties with custodial sentences will be applicable on conviction for committing an offence in this legislation and the regime will allow for the less egregious offences to be answered by payment of a fixed penalty. A draft of the proposed Bill is currently with stakeholders for comments.

3.4.1.4. Pending Subsidiary Financial Legislation (Regulations, Rules, Codes of Conduct)

Regulations

The Banking Services (Capital Adequacy) Regulations

These regulations will address, among other things, the consolidated capital adequacy requirements for all licensees (i.e. deposit taking institutions (DTIs) and their financial holding companies (FHCs) under the Banking Services Act (BSA). Accordingly, these regulations will:

a) outline the general requirements for group-wide capital adequacy that will be imposed on FHCs that head financial groups as defined in the Banking Services Act;
b) outline the methodology to be used for computing consolidated capital requirements of:
    i the FHC
    ii the DTI (in relation to the DTI and its subsidiaries);
c) discuss the methodology that will be applied where these financial groups include insurance entities; and
d) discuss the accounting treatment for the interest of third party minority shareholders of fully consolidated subsidiaries of licensees.

The individual capital adequacy requirements for DTIs will remain applicable under these regulations.

The regime reflected in the draft regulations was shared with the industry, stakeholders and wider public on 30 November 2016 through a consultation process which ended on 31 January 2017.[39] A draft of the proposed regulations is currently with stakeholders for comments. These regulations will repeal and replace the existing Banking Services (Deposit Taking Institutions) (Capital Adequacy) Regulations, 2015.

Supervisory Rules

The Banking Services (Financial Holding Companies) (Licence Application) Rules

These rules will be directed to FHCs under the BSA and will, among other things, set out the information which must be provided in an application to be licensed as an FHC under the BSA. The information required includes the same particulars relevant to applicants for a licence to operate as a DTI. The particulars include areas such as ownership and group structure, financial resources and strength, strategic plans and projections, governance structure and arrangements, risk management and internal controls, corporate governance and IT systems, details of the recovery and resolution strategy and plans, as well as recovery options of entities within the financial group headed by the applicant.

The regime reflected in the draft rules was shared with the industry, stakeholders and wider public on 30 November 2016 through a consultation process which ended on 31 January 2017. A draft of the proposed rules is with stakeholders for comments. [40]

Anti-Money Laundering, Counter Financing of Terrorism (AML/CFT) and Proliferation of Weapons of Mass Destruction Rules

The international standards on AML/CFT and proliferation (i.e. the revised FATF Recommendations 2013) include a number of enhanced requirements with which countries are asked to comply. [41] These enhanced requirements include the application of a

[39] The consultation process included a consultation paper on Consolidated Capital Adequacy Requirements.
[40] This consultation process included a consultation paper on Proposal for Drafting Instructions for FHC Licence Application Rules

[41] The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a "policy-making body" which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.
The FATF has developed a series of Recommendations that are recognised as the international standard for combating money laundering and the financing of

risk based approach to allow competent authorities to ensure that measures to prevent or mitigate money laundering or terrorist financing are commensurate with the risks identified. The rules also enable such authorities to make decisions on how to allocate their resources in the most effective way.[42] Accordingly, the framework that is implemented should, among other things: –

1. maintain the requisite focus on the risks to the system, customers, services (including the business line and products) and the quality of compliance;

2. have express triggers for periodic reviews, that is, major events, changes in management or operations;

3. ensure that the frequency and intensity of supervision are clearly dependent on risks;

4. ensure consolidated supervisory obligations with respect to AML/CFT remain applicable, including the requirement for regulatory co-operation nationally and cross border, including co-operation on a diagonal basis;

5. ensure that supervisors have the range of disciplinary and financial sanctions (including the application of administrative fines and the power to revoke and/or restrict or suspend the licence); and

6. ensure that co-operation and collaboration with local competent authorities can be undertaken.

Proposals for the development of drafting instructions for AML/CFT Supervisory Rules under the Banking Services Act, 2014 and the Bank of Jamaica Act are being developed.

These rules will, among other things:

1. codify the risk based examinations and oversight processes pertaining to the AML/CFT oversight functions of the Bank of Jamaica; and

2. outline the areas in the BOJ's AML/CFT Guidance Notes with which compliance will be expressly mandated and allow BOJ to directly sanction breaches of those requirements. The BOJ is currently the competent authority with responsibility for monitoring compliance with the requirements of the Proceeds of Crime Act (POCA) and Terrorism Prevention Act (TPA) for institutions comprising of the following:

   a. DTIs under the BSA;
   b. cambios (Exchange Bureaux);
   c. money transfer and remittance agents and agencies; and
   d. a society registered under the Cooperative Societies Act, which carries on credit union business.

The requirements under the Guidance Notes with which compliance will be expressly mandated pertain to areas regarding:

   a. Risk Based Framework;
   b. Know Your Customer, Know the Transaction Counterparty and Customer Due Diligence;
   c. Special Guidance – UNSEC Resolutions on the Proliferation of Weapons of Mass Destruction;[43]
   d. Special Guidance – Branches and Subsidiaries;
   e. Nominated Officer Regime;

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terrorism and proliferation of weapons of mass destruction. They form the basis for a co-ordinated response to these threats to the integrity of the financial system and help ensure a levelled playing field. First issued in 1990, the FATF Recommendations were revised in 1996, 2001, and 2003 and most recently in 2012 to ensure that they remain current and relevant. These recommendations are intended to be of universal application.
The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In collaboration with other international stakeholders, the FATF works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse. – source www.fatf-gafi.org.

Nb. – FATF membership (directly and via associate membership through FATF Styled Regional Bodies) stands at 198 countries.

[42] Subject to POCA S91 (g) and TPA S18 (5), a competent authority is an entity or authority authorized to monitor compliance and issue guidelines to prevent money laundering for businesses in the regulated sector. The competent authorities for financial institutions therefore are the Bank of Jamaica (for DTIs) and Financial Services Commission (for financial services).

[43] UNSEC is the abbreviation of United Nations Security Council.

f. Board Responsibility and Employee Integrity and Awareness; and
g. Compliance Monitoring;
h. Transaction Monitoring and Reporting; and
i. Record Keeping

Once drafted, the proposals will be issued for consultation and when finalized will inform the development of the requisite drafting instructions for Supervisory Rules under the Banking Services Act and under the Bank of Jamaica Act. The request for drafting instructions for the development of AML/CFT Rules under the BSA was issued to the MOFPS in November 2017.

3.4.3. Non-Financial Legislation

In relation to the AML/CFT framework, legislation passed in 2017 are as follows:

The Companies (Amendment) Act, 2017 – a number of the amendments made to the Companies Act are designed to address the matter of beneficial ownership information, which was not required under the previous Companies Act and which was identified as a gap or weakness in the registration framework. Accordingly, the amendments, among other things:

a. discontinue the share warrant regime and require the holders of such instruments to be registered as members of the body corporate; the amendments also prohibit the transfer of entitlements or interests under such instruments after the specified date (i.e. date of the amendment);

b. require applicants and companies to submit beneficial ownership information and includes penalties for non-compliance; and

c. defines beneficial ownership, ultimate effective control and ultimate ownership.

These amendments to the Companies Act were passed in June 2017 and will come into effect on the date appointed by the Minister of Finance.

The National Identification and Registration Act, 2017 – this Act was passed in December 2017 to:

a. establish the National Identification and Registration Authority (NIRA);

b. introduce a national identification system (NIDS) through the issue of a National Identification Number and National Identification Card;

c. ensure that the NIDS will function as the verification of the identity information for all citizens of Jamaica or for a person who is ordinarily resident in Jamaica; and

d. confer on the NIRA the powers and responsibility of administering the NIDS.

These pieces of legislation are highlighted because of their potential to enhance Jamaica's AML/CFT "Know Your Customer" framework.

4. Financial Market Operations

4.1. Open-Market Operations

4.1.1. Bank of Jamaica Liquidity Management Operations

During 2017, the Bank conducted liquidity management operations through regular offering of its overnight deposits and 30-day Certificates of Deposit. The Bank also continued to provide ongoing liquidity assurance through its overnight Standing Liquidity Facility and the offer of its 14-day repurchase agreements on a competitive auction basis. Additionally, as part of its liquidity management strategy, the Bank offered to lend funds to deposit-taking institutions on several occasions in the first half of 2017 via its Occasional Term Repurchase Operation.

The Bank also advanced the work on the realignment of its interest rate corridor in an effort to strengthen the signaling effects of its monetary policy action. This necessitated several changes to its monetary policy operations which included modifications to its 30-day sterilization operations during the review period as follows:

- In February 2017, the Bank reduced the offering of its 30-day CD from twice to once weekly;
- Effective 01 July 2017, the Bank changed its policy rate to the interest rate paid on the overnight deposits from the interest rate paid on its 30-day certificates of deposit; and
- Effective 26 July 2017 the Bank commenced the offer of its 30-day CD instrument by competitive auction.

There were several adjustments made to OMO interest rates and lending rates throughout the year (see **Section 12: Calendar of Monetary Policy Developments**).

In 2017, the overall liquidity management operations resulted in net absorption of $32 665.5 million from the system. An increase in the domestic cash reserve holdings (particularly in light of the two new commercial bank entrants) occasioned additional absorption of $15 915.5 million. The impact of these absorptions was fully offset by the net purchase of foreign currency equivalent to $160 193.7 million, to result in an overall net injection of $111 612.7 million emanating from the Bank's financial market operations (see **Table 44**).

Table 44

BANK OF JAMAICA LIQUIDITY OPERATIONS					
	Mar-17	**Jun-17**	**Sep-17**	**Dec-17**	**Total**
Sterilization Operations **Net issues (-) /Net maturities (+)**	12 162.5	-26 861.0	-6 544.3	4 875.5	-16 367.4
Liquidity Provision Operations **Net Maturity (-)/ Net Issue (+)**	-5 785.1	-8 027.1	-2 038.3	- 447.6	-16 298.1
TOTAL OPEN-MARKET OPERATIONS **Net Absorption (-) / Net Injection (+)**	**6 377.4**	**-34 888.2**	**-8 582.7**	**4 428.0**	**-32 665.5**
Foreign Exchange Transactions **Net Sale(-) / Net Purchase(+)**	50 214.5	27 960.5	40 758.3	41 260.4	160 193.7
Domestic Cash Reserve **Net increase (+)/net Decrease (-)**	-7 869.3	-3 766.2	-3 123.6	-1 156.4	-15 915.5
BOJ Operations **Net Absorption (-) / Net Injection (+)**	48 722.6	-10 693.8	29 052.1	44 531.9	111 612.7

During 2017, there was an overall net issue of BOJ CDs resulting in liquidity absorption of $16 367.4 million. This outturn was largely impacted by a net issue of $26 861.0 million on CDs in the June quarter, followed by a further absorption of $6 544.3 million in the September quarter. These amounts were offset by net maturities totalling $17 038.0 million in the March and December quarters. see **Table 44**).

Average daily placements of overnight deposits increased steadily from July 2017 and the market was generally characterized by buoyant liquidity levels (see **Chart 47**). This build-up in overnight balances coincided with the Bank's introduction of the competitively priced 30-day CDs with a limited offer size. This development also contributed to a net maturity of 30-day CDs in 2017. Specifically, in the third quarter of the year, there was a net maturity of 30-day CDs which amounted to $33 353.0 million relative to a net maturity of $125.8 million for the corresponding period in 2016 (See **Table 45**). Notably, the market's response to the Bank's offer of the 30-day CDs during the year was favourable, with most of the auctions being oversubscribed as investors displayed a heightened appetite for these short-term liquid instruments (see Table 1 Appendix B).

Chart 47: Average Daily Overnight Placements

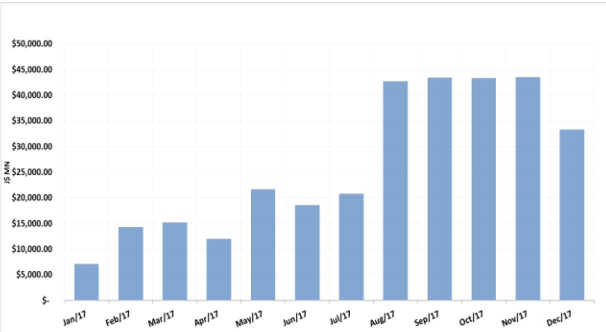


Table 45

INVESTMENT PROFILE OF BOJ'S 30-DAY CD [1/]							
Year	Quarter	Take-up (J$ Mn)	Take-up Ratio[2/] (%)	Maturity (J$ Mn)	Maturity[3/] Ratio (%)	Net Issue(+)/ Net Maturity(-) (J$ Mn)	Reinvestment[4/] Rate (%)
2016	March	63 486.2	26.2	64 512.7	26.0	-1 026.4	98.4
	June	59 408.1	24.5	61 783.3	24.9	-2 375.2	96.2
	September	58 067.5	23.9	58 193.3	23.5	- 125.8	99.8
	December	61 943.6	25.4	64 010.2	25.6	-2 066.7	96.7
	Total	**242 479.0**		**248 073.1**		**-5 594.1**	**97.7**
2017	March	66 591.3	23.1	60 747.1	20.7	5 844.2	109.6
	June	92 057.5	32.0	81 826.4	27.9	10 231.1	112.5
	September	32 921.1	11.4	66 274.1	22.6	-33 353.0	49.7
	December	96 232.6	33.4	84 743.0	28.9	11 489.7	113.6
	Total	**287 802.6**		**293 590.6**		**-5 788.0**	**98.0**

1/ Data includes principal amounts only.
2/ Determined as quarterly take-up as a percentage of total take-up.
3/ Determined as quarterly maturities as a percentage of total maturities.
4/ Determined as quarterly take-up as a percentage of quarterly maturities.

During the period January to July 2017, the Bank also had 17 issues of its 365-day Fixed Rate CD via competitive auction relative to 15 issues of a similar tenor in 2016. Generally, the offers were favourably received by the market, as evidenced by the oversubscription of 12 of the 17 auctions (See Table 2 Appendix B). Similar to 2016, the Bank only issued one Variable Rate CD for the review period.

For the review year, net maturity of $16 298.1 million in repos provided liquidity to the system (see Table 44). Net maturities of repos was observed in all four quarters, largely due to the decreased usage of the Bank of Jamaica repurchase facilities. In particular, in the December quarter, participation in the 14-day repurchase operation was particularly low, with only one deposit-taking institution participating in a number of the auctions. As such, the stock of 14-day repurchase agreements declined to $350.0 million at end-December 2017 relative to $16 550.0 million at end-December 2016 (see Table 46). Additionally, during the second half of the review year, institutions only utilised the Bank's overnight facility on five occasions relative to sixty-one occasions for the corresponding period in 2016.

The Bank conducted Occasional Term Repurchase Operations in March and April of the review year, with the maturity date for all of these repos being 12 May 2017. These operations were used by the Bank to manage the impact of GOJ maturities of approximately $66.0 billion in May 2017.

Table 46

OUTSTANDING STOCK OF BOJ REPOS: MARCH 2016 TO DECEMBER 2017 (JMD Millions)							
	SLF	EFR	14-day Repos	SMRO	OTRO	TOTAL	Change in Stock
Mar-16	-	-	10 200.0	-	3 589.1	13 789.1	(3160.80)
Jun-16	-	-	18 450.0	-	-	18 450.0	4 660.9
Sep-16	-	-	17 800.0	-	-	17 800.0	(650.0)
Dec-16	-	-	16 550.0	-	-	16 550.0	(1250.0)
Mar-17	130.0	-	3 900.0	-	6 850.0	10 880.0	2 980
Jun-17	-	-	3 000.0	-	-	3 000.0	(7880.0)
Sep-17	-	-	1 000.0	-	-	1 000.0	-
Oct-17	-	-	1 000.0	-	-	1 000.0	-
Nov-17	-	-	-	-	-	-	(1000.00)
Dec-17	-	-	350.0	-	-	350.00	(650.00)

4.1.2. Issuance of Foreign Currency Certificates of Deposit

The Bank continued to issue foreign currency CDs as a part of its strategy to meet the foreign reserve objectives during the review year. However, given its efforts to reduce the ratio of Borrowed to Non-Borrowed reserves, only 18 new USD CDs were offered during the review year relative to 30 in 2016. In addition, there were repayments totalling US $477.9 million in foreign currency CDs during the year.

Subscriptions to USD CDs during 2017 amounted to US$147.6 million relative to US$110.6 million in 2016, while the weighted average tenor for new issues remained at five years. million. ,In the context of the Bank's current objective to reduce borrowed reserves, as at end-2017 the outstanding stock of foreign currency CDs was US$679.1 million relative to US$1 026.5 million at end-2016 (see **Table 47**).[1]

Table 47

BOJ FOREIGN CURRENCY CERTIFICATES OF DEPOSIT				
	Mar-17	Jun-17	Sep-17	Dec-17
Number of Instruments Offered	15.0	0.0	9.0	0.0
Average Tenor- (Years)	5.0	n/a	5.0	n/a
Nominal Subscription (US$mn)	50.8	0.0	96.9	0.0
Nominal Outstanding (US$mn)	825.6	796.3	764.1	679.1
	Mar-16	Jun-16	Sep-16	Dec-16
Nominal Outstanding (US$mn) [1/]	931.5	929.0	999.9	1,026.50

[1/] Outstanding CDs denominated in GBP converted to USD at the applicable WASR as at the reporting date.

4.1.3. Primary Dealer Performance & Administration

During 2017, the Primary Dealers (PDs) net redeemed $14 430.8 million in BOJ instruments in contrast to a net investment of $12 313.0 million for 2016. The performance during the year largely reflected the net redemption of $18 713.4 million during the first, third and fourth quarters of the year (see **Chart 48**).

The Bank continued to effect policy changes to its Open Market Operations in 2017. These changes included reducing the frequency with which it offered 30-day CDs and the commencement of offering a limited amount of 30-day CD by weekly multiple-price competitive auctions. Consequent on these developments, PDs' share of 30-day CDs decreased in 2017, to an average of 43.1 per cent of total issues relative to 57.0 per cent in 2016 (see **Chart 49**). The decline in the PDs share of total issues also occurred in the context of the dominance of the commercial banking group in the 30-day CD auction, due to the concentration of Jamaica Dollar liquidity held by that group (see **Chart 50**). Consequently, by end-2017, their share of the outstanding stock of BOJ instruments declined to 33.2 per cent from 56.2 per cent at end- 2016.

Chart 48: Primary Dealers' Net Take-Up of BOJ Instruments

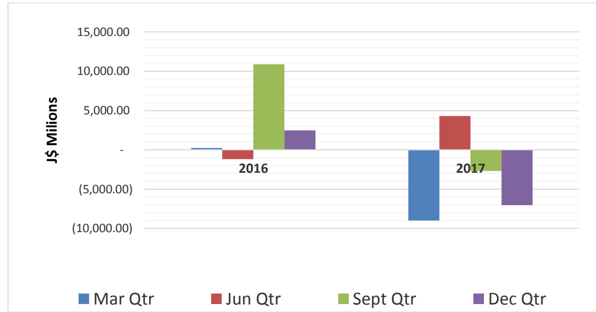


Chart 49: Primary Dealers' Share of BOJ Instruments Issued

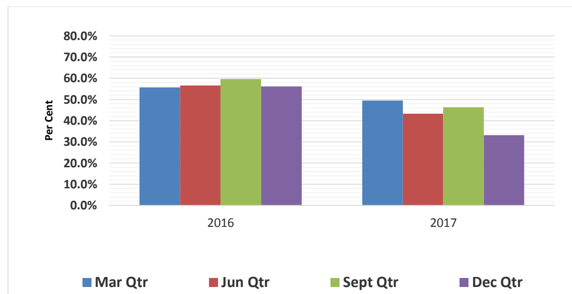
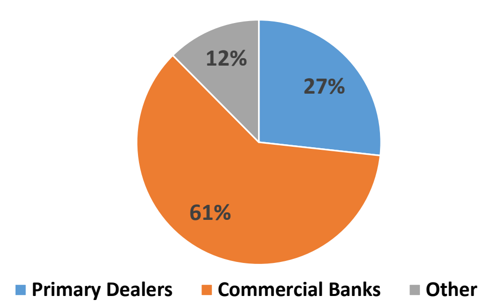


Chart 50: Percentage Share of Take-up in BOJ 30-day CD – 28 July 2017 to 29 December 2017



During 2017, the number of PDs was eight, unchanged relative to 2016. A total of 8 persons were assessed under the Bank's 'Enhanced Fit & Proper' Criteria. These assessments were conducted in accordance with the policy for designating entities as well as in relation to the requirements for the annual renewal of the PD designation.

[1] The annual change in the outstanding stock of foreign currency CDs reflect the variability in the GBP/USD exchange rate used for valuation as at each reporting period.

4.2. International Reserves

4.2.1. Overview

The gross foreign asset (GFA) of the Bank of Jamaica increased by US$489.7 million to US$3 781.2 million at end-2017 (see **Table 48**). The increase in the foreign assets mainly occurred during the third quarter of the year. This primarily reflected the impact of GOJs debt raising activities on the international capital market as well as loan repayments from the Petro-Caribe Development Fund to GOJ. The increase in the GFA was partly offset by Government debt payments, BOJ intervention sales to the market and the prepayment of BOJ Foreign Currency Certificates of Deposit. Foreign liabilities increased marginally during the year by US$0.8 million. As a result, the net international reserves increased by US$488.9 million to end the year at US$3 208.3 million (see **Table 49**).

Table 48

BANK OF JAMAICA GROSS FOREIGN ASSETS As at 29 December 2017 US$MN	
Opening Gross Foreign Assets (GFA)	**3 291.5**
Inflows	3 832.2
Outflows	3 360.5
Adjustment to GFA [1/]	*18.0*
Closing Gross Foreign Assets	**3 781.2**

1/ *Unrealized losses on foreign currencies and other investments.*

Table 49

BANK OF JAMAICA
NET INTERNATIONAL RESERVES
(End of Period)
US$MN

	2016	2017				Annual Change
	Dec.	Mar.	June	Sept.	Dec.	(US$)
NIR	2719.4	2769.2	2616.8	3137.1	3208.3	488.9
Gross Foreign Assets	3291.5	3323.9	3185.7	3714.9	3781.2	489.7
Foreign Liabilities	572.1	554.7	568.8	577.8	572.9	0.8

4.2.2. Foreign Exchange Inflows

Total foreign currency inflows grew by US$881.5 million to US$3 832.2 million in 2017 (see **Table 50**). This growth reflected an increase in foreign currency receipts by the Government, which was largely buoyed by the proceeds from the GOJ Liability Management Programme (LMP) exercise conducted on its portfolio of Eurobonds in August 2017. The LMP involved an invitation to bondholders to early redeem holdings in specified bonds and the subsequent re-opening of the GOJ's 6.75% Notes due 2028 and 7.875% Notes due 2045. These transactions resulted in net foreign exchange inflows to GOJ of US$834.4 million, the impact of which was partially offset by lower disbursements from multilateral agencies relative to 2016.

Total market purchases during 2017 amounted to US$2 251.3 million which accounted for 58.7 per cent of total inflows. This contribution was, however, lower than the 70.0 per cent recorded in 2016 but represented an increase of US$199.4 million relative to the purchases in 2016. The growth in total market purchases largely reflected higher surrenders to the BOJ of US$196.7 million, notwithstanding a reduction in the surrender requirement under the Centralised Facility for Foreign Exchange for Public Sector Entities (PSE Facility) in October 2017.[2]

Table 50

INFLOWS OF FOREIGN EXCHANGE US$MN	2016	2017	Change ($)
Bauxite Receipts [1/]	**25.3**	**7.7**	**-17.5**
Market Purchases	**2052.0**	**2251.3**	**199.4**
Surrenders to BOJ	**1982.9**	**2179.6**	**196.7**
Authorised Dealers	1363.7	1489.3	125.7
Cambios	619.3	690.2	71.0
Other Purchases [2/]	69.1	71.8	2.7
GOJ Receipts	**457.5**	**1171.0**	**713.5**
Bond Flows	**0.0**	**834.4**	**834.4**
Domestic USD Bond	0.0	0.0	0.0
Eurobond	*0.0*	*834.4*	*834.4*
Domestic USD Loans	*0.0*	*0.0*	*0.0*
GOJ Multilateral Agency Flows	**183.4**	**76.3**	**-107.2**
IDB	*157.6*	*0.0*	*-157.6*
CDB	*10.0*	*0.0*	*-10.0*
IBRD	*0.0*	*69.8*	*69.8*
IMF [3/]	*0.0*	*0.0*	*0.0*
Grants	*15.9*	*6.4*	*-9.4*
Divestment	0.0	0.0	0.0
Other GOJ	274.0	260.3	-13.7
IMF	**120.0**	**1.1**	**-118.8**
Loan Disbursement/Misc. Funds	*120.0*	*1.1*	*-118.8*
Investment Income	**10.9**	**25.8**	**14.9**
BOJ Certificates of Deposit	**110.7**	**128.7**	**18.0**
Other Receipts [4/]	**174.5**	**246.6**	**72.0**
TOTAL CASH INFLOWS	**2950.7**	**3832.2**	**881.5**

[1/] *Includes Royalty, Levy and Taxes. Local Costs have been excluded.*
[2/] *Includes all trading room purchases, including market intervention and Local Costs.*
[3/] *IMF loan for Budgetary support.*
[4/] *Includes inflows for net prudential reserves.*

[2] Effective 25 October 2017, Bank of Jamaica implemented a 5.0 percentage points reduction in the surrender requirement under the PSE Facility. As a result, the surrender requirements fell to 20.0 per cent for Authorised Dealers (ADs) and 15.0 per cent for cambios. Notably, the regular surrender requirement remained unchanged at 5.0 per cent for both ADs and cambios.

4.2.3. Foreign Exchange Outflows

In 2017, total foreign currency outflows were US$3 360.5 million, reflecting an increase of US$770.2 million relative to 2016 (see **Table 51**). This growth emanated primarily from BOJ and GOJ payments as market sales were lower relative to 2016.

GOJ foreign currency payments increased by US$556.1 million relative to 2016, primarily reflecting the early redemption in September 2017 of its domestic USD Benchmark Notes Due 2020A and USD Benchmark Notes Due 2020B. The total principal payment on these instruments was US$526.4 million.

During 2017, payments on BOJ foreign currency CDs increased by US$447.7 million to US$508.0 million. The increase primarily represented two prepayment exercises in January and July, amounting to US$366.5 million. In addition, during the year, CD maturities totalled US$111.4 million (see **Table 51**).

Market sales declined in 2017 by US$258.0 million relative to 2016, primarily reflecting lower intervention sales. This was mainly evident in the first quarter of 2017 in the context of more favourable supply conditions at that time relative to the previous year.

Table 51

OUTFLOWS OF FOREIGN EXCHANGE
US$MN

	2016	2017	Change (US$)
GOJ Payments	**1160.6**	**1716.7**	**556.1**
Debt	1041.3	1593.5	552.2
Principal	*449.3*	*1027.4*	*578.2*
Interest	*592.0*	*566.1*	*-26.0*
Other Payments	119.4	123.2	3.8
Debt Buy-back by PDVSA	-	0.0	0.0
Market Sales	**1276.0**	**1018.0**	**-258.0**
Intervention	870.2	594.9	-275.4
Public Sector Facility	405.8	423.2	17.4
IMF	**5.5**	**22.0**	**16.5**
Principal	5.5	9.2	3.7
Interest	0.0	12.8	12.8
BOJ Foreign Currency Certificates of Deposit	60.3	508.0	447.7
Other Payments[1/]	87.8	95.7	7.9
TOTAL CASH OUTFLOWS	**2590.3**	**3360.5**	**770.2**

[1/] *Includes Central Bank payments for notes and coins.*

4.2.4. Financial Transactions with the International Monetary Fund

There were no IMF disbursements to BOJ during 2017, as Jamaica decided to treat the 36-month Stand-By Arrangement that was finalised in November 2016, as precautionary funding (see **Table 52**).

In November 2017, the Bank commenced the repayment to the IMF under the Extended Fund Facility loan programme which concluded a year earlier. Total repurchases related to this loan facility amounted to US$16.0 million (SDR 11.4 million), of which $6.8 million (SDR 4.8 million) and US$9.2 million (SDR 6.6 million) were owed by the GOJ and BOJ, respectively.

Table 52

SDR DISBURSEMENTS AND REPURCHASES/REPAYMENTS
CALENDAR YEAR 2017
MN

	DISBURSEMENTS		REPURCHASES	
Date	**SDR**	**USD**[1/] **Equiv.**	**SDR**	**USD**[1/] **Equiv.**
March Qtr	0.0	0.0	0.0	0.0
June Qtr	0.0	0.0	0.0	0.0
September Qtr	0.0	0.0	0.0	0.0
December Qtr	0.0	0.0	11.4	16.0
TOTAL	**0.0**	**0.0**	**11.4**	**16.0**

[1/] *Based on the prevailing SDR =US$ exchange rate.*

4.3. Reserve Management

As at 31 December 2017, the Gross Foreign Assets (Reserves) held by the Bank of Jamaica was US$3 781.2 million compared to US$3 291.5 million as at 31 December 2016. During 2017, the portfolio was managed in accordance with the Bank's revised Foreign Investment Policy Statement (IPS), which informed the operating guidelines and strategies employed as well as the risk management arrangements imposed. The approval of the revised IPS and the corresponding Investment Guidelines (IG) at the end of 2016 brought changes to the investment portfolio in 2017. These changes included an increase in the number of counterparties and a classification of the portfolio into Working Capital, Liquidity and Investment Tranches.

During the year, the Bank continued to benefit from the International Bank for Reconstruction and Development's (IBRD) Capacity Building and Knowledge Transfer external workshops and onsite missions. At the end of May 2017, the Bank implemented and fully operationalized the Portfolio Analytics Tool (PAT2) associated with the Reserves Advisory Management Programme (RAMP) offered by the IBRD.[3] The Bank also implemented an indexed portfolio in July 2017 by a method of stratified sampling and monthly rebalancing.[4] Like the RAMP which was extended in 2017 for an additional three years, other capacity building programmes and on-site missions are expected to continue into 2018. The next step of the indexation process, called Enhanced Indexation, is also expected to be implemented by the second quarter of 2018.

4.3.1. Portfolio Distribution

While no new class of assets was added to the portfolio in 2017, US Treasury bonds were added to the fixed income asset class to facilitate the aforementioned indexation. The following details the composition of the portfolio as at 31 December 2017 relative to end-2016 (see Table 53).

Table 53

DISTRIBUTION OF FOREIGN ASSETS For the Years Ended 31 December				
	2016		2017	
Assets	**US$MN**	**% of Holdings**	**US$MN**	**% of Holdings**
Working Capital Tranche	2,057.5	54.4	670.2	17.7
Liquidity Tranche	541.6	14.3	2,138.6	56.6
Investment Tranche				
Capital Market Investments	33.1	0.9	306.5	8.1
External Funds	346.8	9.2	349.7	9.2
Total Funds Invested	**2,979.0**	**78.8**	**3,464.9**	**91.6**
Allocation of Special Drawing Rights	312.5	8.3	316.23	8.4
TOTAL	**3,291.5**	**100.0**	**3,781.2**	**100.0**

The Working Capital Tranche was reduced by US$1 387.3 million, representing flows from the Bank's current account at the Federal Reserve Bank of New York to the Liquidity Tranche in the form of deposits with additional counterparties (US$1 597.0 million) and capital market investments due to indexation (US$273.4 million). The increase in the total funds invested was mainly as a result of the US$834.4 million Eurobond receipts in July 2017. To mitigate foreign currency risk, the portfolio retained its bias toward US dollar denominated investments. To reflect this fact, 91.4 per cent of the portfolio was held in US dollar denominated securities at the end of the year.

4.3.2. Investment Strategy

The Bank's investment strategy for 2017 aimed to rebalance the portfolio by moving funds from the Working Capital Tranche and increase holdings in the Liquidity and Investment Tranches[5]. This action served to achieve the strategic asset allocation which would consistently place the portfolio on the efficient frontier under various market scenarios. This was administered through increased investments in the Liquidity Tranche with six counterparties and conducted in a laddered manner to meet the Bank's debt obligation. During 2017, it was noted that the US Federal Reserve (Fed) began to roll back its stimulus programme and raised interest rates three times during the year based on the strength of the economy and improvements in the labour market (see International Developments).

4.3.3. Portfolio Performance

Average income earning assets for the year was US$3 228.0 million, which was US$203.0 million or 6.7 per cent above budget and 13.1 per cent higher than in 2016 (see Table 54). Portfolio cash income of US$29.0 million was US$17.4 million or 150.0 per cent higher than in 2016. The average yield on the portfolio was 0.9 per cent per annum in 2017, 49 basis points more when compared to 2016. This reflected higher-than-budgeted income earning assets as well as a higher-than-expected increase in the Fed funds rate. The following table highlights the portfolio performance in terms of the foreign investment income for the years ended December 2016 and 2017.

Table 54

FOREIGN INVESTMENT INCOME For the Years Ended 31 December				
	2016		2017	
Assets	**Earnings US$MN**	**% of Earnings**	**Earnings US$MN**	**% of Earnings**
Working Captial Tranche	2.3	19.4	9.1	31.3
Liquidity Tranche	5.1	44.3	12.8	44.2
Investment Tranche				
Capital Market Investments	0.9	8.1	2.3	7.9
External Funds	3.1	27.0	3.8	13.1
SDR Holdings	0.1	1.2	1.0	3.5
Total	**11.6**	**100**	**29.0**	**100**
Average Income Earning Assets	2 855		3 228	
Rate of Return (%)	0.4		0.9	

[3] PAT2 is a central repository in a robust secure database for all the investments designed for Trade Capture, Cash Flow Projections, Liquidity Management, Performance and Reporting for the Front, Middle and Back Offices.

[4] This portfolio is a part of the Bank's Investment Tranche and is indexed to the Merrill Lynch 0-3 US Treasury Benchmark.

[5] Strategy employed based on the expectation was for the benchmark Fed Funds rate to be hiked twice in 2017.

5. Payment System Oversight

5.1. Overview

During 2017, payment system oversight maintained its focus on ensuring the safety and efficiency of the National Payment System. Critical to this was the application of risk mitigation measures to the JamClear® Systems (JamClear®-RTGS and JamClear®-CSD) and the Automated Clearing House (ACH). These systems were assessed against the Principles for Financial Market Infrastructures (PFMIs). Another important risk mitigation strategy was the Automated Clearing House (ACH) value threshold of $1.0 million that was used to significantly reduce settlement risk to the safety and security of the National Payment System. Additionally, work commenced on the modernization of the JamClear® systems within the context of the changing technological environment, the emerging need for regional payment systems integration and the evolving policy mandate of the Central Bank.

The development of the electronic retail payments landscape was further advanced with the authorisation by the Bank of new functionalities and services being offered by existing Electronic Retail Payment Service (ERPS) providers. Of significance in 2017, was the commencement of a comprehensive review of the Guidelines for Electronic Retail Payment Services (Guidelines) that was published in 2013. Also of note, significant progress was made by the Bank in advancing the country's Financial Inclusion Strategy. A major accomplishment in 2017 was also the publication of Jamaica's first Yellow Book, a compilation of national payment and securities settlement information.

5.2. Payment System Developments

5.2.1. Risk Mitigation Measures

The PFMIs were applied to the Bank's JamClear® Systems JamClear®-RTGS and JamClear®-CSD) and the Automated Clearing House that is owned by commercial banks. The assessment of each system against the PFMIs involved ensuring compliance with each applicable principle and the assignment of ratings in accordance with international standards.

5.2.2. Automated Clearing House Value Threshold

The application of the ACH value threshold of $1.0 million, meant that all payments and transfers greater than and equal to $1.0 million are to be migrated to alternate payment methods such as JamClear®-RTGS. In 2017, the ACH value threshold strategy successfully reduced settlement risk to the safety and security of the National Payment System, by significantly reducing the number of large value payments processed through the ACH. For the review period, 57 795 of these transactions were processed for a value of $155.8 billion. These outturns represented declines of 61.3 per cent (91 501) in volume and 51.2 per cent ($163.2 billion) in value when compared to 2016. Commercial banks that were not compliant with the targeted threshold incurred a charge of $5 000.00 for each transaction greater than and equal to $1.0 million, which was processed through the ACH.

5.2.3. JamClear® System Modernization

In 2017, the Bank commenced the first comprehensive review of the JamClear® systems since implementation in 2009. The JamClear® modernization project is being conducted within the context of the changing technological environment, the emerging need for regional payment systems integration and the evolving policy mandate of the Bank. This upgrade will impact the operations of both JamClear®-CSD and JamClear®-RTGS, given the new functionalities to meet the requirement of stakeholders. The project is expected to conclude in 2018.

5.2.4. Electronic Retail Payment Services

The development of the electronic retail payments landscape was further advanced with the authorisation by the Bank of new functionalities and services being offered by authorized ERPS providers. These included the disbursement of remittance proceeds via mobile technology. However, during the last quarter of 2017, one ERPS provider, Jamaica Co-operative Credit Union League (JCCUL) withdrew its product (CONEC mobile wallet) from the market. The remaining authorized entities are National Commercial Bank Jamaica Limited (NCB Quisk mobile money), GraceKennedy Payment Services (GK Mpay mobile wallet) and Alliance Financial Services Limited (ePay card product).

The changing retail payment environment, the financial inclusion agenda, the need for regulatory strengthening and stakeholder feedback informed the initiation of a comprehensive review of the Guidelines, which were published in 2013. The areas for revision include governance, risk management and consumer protection.

5.2.5. Financial Inclusion Strategy

Over the review period, advances made in the area of electronic retail payments integrated seamlessly into the National Financial Inclusion Strategy (NFIS). The Bank, during 2017, continued to play a lead role in advancing the country's NFIS through the NFI Steering Committee, chaired by the Governor, and the work undertaken by the Retail Payments and Financial Infrastructure Working Group (RPFIWG), chaired by the Deputy Governor, Finance & Technology/Payment Systems & Risk Management/Administration & Technical Services.

The RPFIWG made significant progress on the work plan specific to the Financial Access and Usage pillar in the NFI Strategy. In addition, the Bank assisted the Ministry of Labour and Social Security with technical guidance on the delivery of the Programme of Advancement through Health and Education (PATH) benefits using authorized ERPS products as part of the Ministry's proposed pilot programme.

5.2.6. Yellow Book – Compilation of Payments and Securities Settlement Arrangements

The Bank, in collaboration with the Center for Latin American Monetary Studies (CEMLA) and the World Bank, published Jamaica's first Yellow Book in April 2017. The Yellow Book is a compilation of national payment and securities settlement information and represents a reference guide for cross-country comparison.

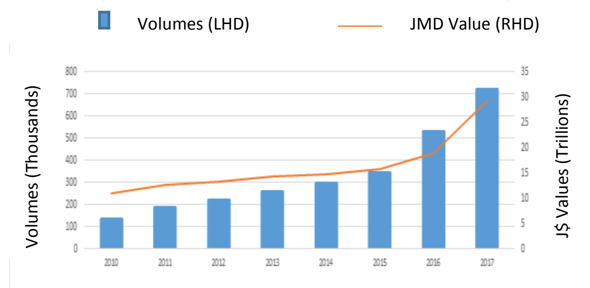
5.3 Payment System Activities

5.3.1. JamClear® Systems

In 2017, JamClear®-RTGS recorded the highest number of transactions in a single year processing 719 120 transactions valued at $29.2 trillion (see **Chart 51**). When compared to 2016, the upward movement represented increases in volume and value by 36.3 per cent (191 692) and 52.9 per cent ($10.4 trillion), respectively. An analysis of the movement over the reporting period indicated an increase in transaction volume of 200 258 in participant payments on behalf of household and corporate clients.

For 2017, the total USD transaction values processed in JamClear®-RTGS increased by 55.0 per cent to US$3.8 billion from US$2.5 billion in 2016.

Chart 51: JamClear-RTGS Volumes and J$ Values



5.3.2. Retail Payment Systems and Instruments

There was an overall increase in the usage of the retail payment systems over the review period.

5.3.2.1. Payment Instruments and Channels

As at end-2017, total debit cards in circulation amounted to 2.9 million reflecting an increase of 33.0 per cent relative to 2016. This increase was mainly due to growth in the number of licensed commercial banks. Credit cards in circulation totaled 291 898 representing an increase of 18.9 per cent when compared to 2016.

For 2017, the total installed ABMs, as reported by commercial banks, increased by 139 terminals to 690. Concurrently, there was an increase of 9.0 per cent in Point of Sale (POS) terminals to 29 147 from 26 750 in 2016.

5.3.3. Cheque Clearing Activities

5.3.3.1. Domestic Cheques

The total number of cheques processed through the ACH over the reporting period was 6.2 million, valued at $0.8 trillion. These outturns represented declines of 5.9 per cent in volume and 9.8 per cent in value when compared to 2016. The average value of each cheque payment processed in the ACH declined by 4.1 per cent to $ 129 069 from $134 635 in 2016.

For the review year, the number of cheques processed by the commercial banks' proprietary system totalled 7.6 million and amounted to $0.9 trillion.[1] These figures reflected declines of 6.4 per cent in volume and 3.2 per cent in value when compared to 2016. The average value of proprietary cheques processed by commercial banks increased by 3.4 per cent to $ 118 571 in 2017 from $114 631 in 2016..

5.3.3.2. Selected Foreign Currency Cheques

Total foreign currency cheques cleared manually through the BOJ Clearing House reflected a decrease in value of 5.8 per cent when compared to 2016 (See Table 55). Cheques cleared were denominated in four major currencies namely USD, GBP, CAD and Euro. In 2017, cheques denominated in USD amounted to US$ 2 161 million which was 99.2 per cent of the total foreign currency cheques cleared.

Table 55

VALUE OF FOREIGN CURRENCY CHEQUES CLEARED (US$ MILLIONS EQUIVALENT)	2014	2015	2016	2017
Currency				
USD	2 160.0	2 163.7	2 294.0	2 161.2
CDN	12.8	23.5	5.1	3.6
GBP	28.0	11.0	12.3	13.2
EURO	2.4	2.4	1.2	1.5
Total in USD Millions	**2 203.2**	**2 200.6**	**2 312.6**	**2 179.4**

Foreign currency items cleared derived from Consolidated Clearing Figures.
The CDN and GBP selling rate was gathered from the Trading Summary as at December 29, 2017.
Euro rate was collated from Indicative rate as at Dec. 29, 2017.
All values processed are converted to USD Millions.)

[1] The proprietary systems of the commercial banks represent systems owned and operated by these institutions for settling payments.

5.3.4. Electronic Retail Payments

For 2017, the total volume of retail payments processed in Multilink, ACH and the proprietary systems of commercial banks stood at 147.0 million transactions valued at $3.5 trillion. Total transaction volume increased by 5.3 per cent, while values grew by 5.8 per cent relative to the outturns in 2016. The growth in retail payment volumes reflected the increasing usage of electronic retail payment instruments and terminals, such as debit cards, direct credits and direct debits. Additionally, the rise in non-cash retail payment value for the review period was due primarily to an increase in debit card usage over the Multilink network and commercial banks' proprietary systems. A disaggregation of the data indicated that debit cards continued to be the dominant retail payment instruments in terms of volumes and values.

5.3.4.1.ACH – Direct Credits and Direct Debits

The total number of direct credits processed through the ACH in 2017 was 3.3 million valued at $240.1 billion, reflecting growth of 19.6 per cent and 14.7 per cent in volume and value, respectively. The growth in direct credit transactions was due to the continued usage of the ACH by the Government as part of its payment reform under the implementation of the Central Treasury Management System. Direct debits processed through the ACH in 2017 represented 516 648 payments valued at $9.7 billion, reflecting an increase of 2.1 per cent in volume and growth of 4.9 per cent in value.

5.3.4.2. Multilink Transactions – Automated Banking Machine (ABM) and Point of Sale (POS)

The total number of domestic card transactions processed through the Multilink network using ABM and POS terminals, was 26.8 million valued at $174.7 billion in 2017, reflecting increases in volume and value of 7.3 per cent and 14.3 per cent, respectively, relative to 2016. Transactions processed in ABM terminals through the Multilink network, totalled 12.8 million valued at $96.1 billion and reflected increases of 3.3 per cent and 13.0 per cent in volume and value, respectively, relative to 2016. Transactions processed on POS terminals grew in volume and value by 11.3 per cent and 15.9 per cent, respectively, to approximately 14.0 million transactions valued at J$78.6 billion relative to 2016 (See **Charts 52 & 53**).

Chart 52: Multilink ABM and POS Transactions by Volume

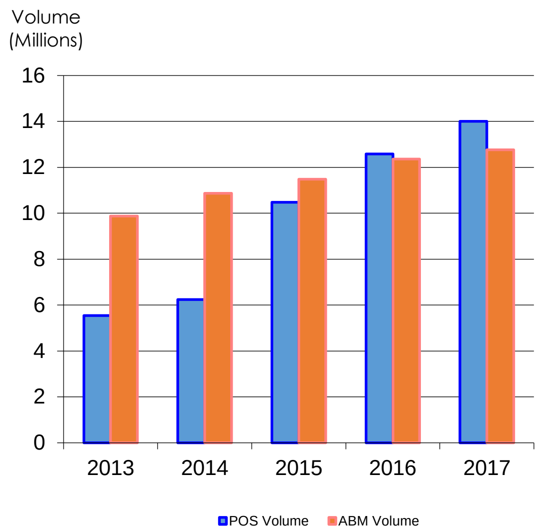
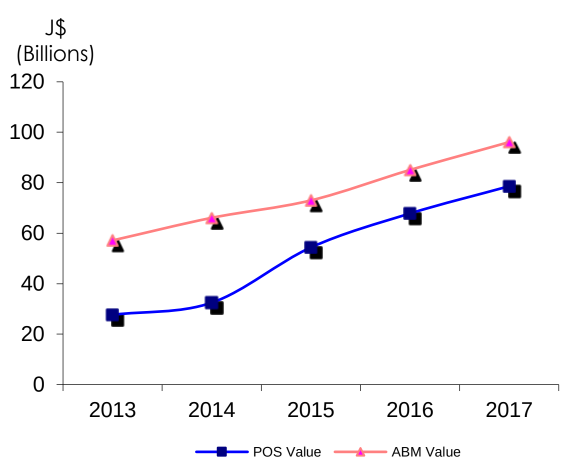


Chart 53: Multilink ABM and POS Transactions by JMD Value



5.3.4.3. Proprietary Systems – Commercial Banks

Debit Cards

The commercial banks settled debit card transactions on their proprietary systems totalling approximately 85.2 million for a value of $977.5 billion in 2017. Debit card transactions processed on the proprietary systems of the commercial banks reflected increases of 3.4 per cent and 19.4 per cent in volume and value, respectively, relative to 2016.

Credit Cards

In 2017, the total number of credit card transactions processed on the proprietary systems of commercial banks was 17.5 million valued at 342.9 billion. These results represented increases in volume and value of 10.2 per cent and 31.3 per cent, respectively, relative to 2016.

5.4. Bill Payment Activities

The total bill payment transactions reported for 2017 was 18.9 million valued at $263.2 billion, reflecting increases of 6.3 per cent and 6.2 per cent in volume and value, respectively, relative to 2016. The dominant payment method for bill payments was cash which accounted for 53.2 per cent of total bill payments processed. Debit cards accounted for 36.6 per cent of the total value of bill payments.

6. Banking & Depository Services

6.1. Banking Services

The Bank continued to provide a range of banking services to its customers during 2017.[1] In this regard, the Bank operated the JamClear®-RTGS and provided administrative support to the ACH owned and operated by the commercial banks. Both systems are Systemically Important Payment Systems (SIPS) in Jamaica. [2]

As the owner and operator of the JamClear®-RTGS, the Bank continued to oversee the daily administration and settlement of transactions in this system. At end-2017, although the number of participants in JamClear®-RTGS remained at 22, there were changes in the building society and merchant bank categories. These changes were consequent on the conversion of the Jamaica National Building Society and JMMB Merchant Bank to commercial banks. JN Bank and JMMB Bank were registered in JamClear®-RTGS in April and August 2017, respectively.

During the year, in support of the ACH operations, the Bank continued to provide oversight and act as a participant. In its oversight function, the Bank effected timely settlement of the daily net settlement balances on the accounts of the commercial banks held at BOJ. As a participant, the Bank negotiated cheques drawn on the commercial banks, as well as sent and received electronic debits and credits. Similarly, cheques drawn on BOJ which were negotiated by the commercial banks were settled in the ACH. Consequent on their membership to the Jamaica Clearing Bankers Association, JN Bank and JMMB Bank commenced settlement of their ACH obligations in June and August 2017, respectively.

6.2. Electronic Securities Depository

The Bank of Jamaica continued to function as operator of JamClear-Central Securities Depository (JamClear®-CSD) and registrar for BOJ and GOJ domestically issued fixed income securities, excluding Treasury Bills. As operator, the Bank continued to oversee the daily management and administration of the JamClear®-CSD, ensuring its ongoing functionality and operations in accordance with the rules and operating procedures.

As Registrar, the Bank continued to deliver all related registry services including: (i) registration of new debt issues; (ii) on-going maintenance of ownership records; (iii) distribution of maturity proceeds and interest payments; (iv) provision of audit confirmations and (v) generation of withholding tax certificates. Notably, effective January 2017, the Tax Authority of Jamaica (TAJ) implemented an automated process for generating and delivering withholding tax certificates. In this regard, withholding tax certificates for interest paid on BOJ and GOJ locally issued securities held in JamClear®-CSD are no longer printed for dispatch by the depository but uploaded to the TAJ's web-portal where investors with online access to this portal can retrieve and print their certificates.

At end-2017, the number of participants in JamClear®-CSD remained at 38, similar to end-2016 and comprised all eight commercial banks, one merchant bank, eight primary dealers, twenty secondary dealers and one trustee. The BOJ and the GOJ remained the only issuers of securities. At end-2017, there were 30 780 beneficial owner accounts in

[1] The Bank's customers include the Government, primary dealers, the Jamaica Central Securities Depository (JCSD), regional central banks, BOJ staff and the general public.

[2] The JamClear® - RTGS is specifically designed to clear large-value, time-critical payments by financial market participants on accounts held at the BOJ in real time throughout the business day. Payments settled in the JamClear® - RTGS are final and irrevocable. The JamClear®-RTGS and the JamClear® Central Securities Depository (JamClear® - CSD) systems are fully integrated, facilitating settlement on a delivery versus payment (DvP) basis of all Government of Jamaica and Bank of Jamaica securities traded in the domestic market.

the JamClear®-CSD, an increase of 332 compared to end-2016.

The JamClear®-CSD continued to provide a wide variety of depository services including Repurchase Agreements, Entitlement Proceeds and Taxation (see Table 56). Repurchase Agreements had the highest utilisation over the review period accounting for 52.4 per cent of the total volumes traded. Entitlement Proceeds and Taxation accounted for 27.7 per cent and 9.7 per cent, respectively (see Table 56).

Table 56

JAMCLEAR-CSD TRANSACTION TYPES 2016 -2017				
	Number of Transactions		Number of Transactions	
Transaction Type	2016	% of Total	2017	% of Total
Bill Payment	433.0	0.4%	431.0	0.5%
Delivery Versus Payment	130.0	0.1%	78.0	0.1%
Entitlement Proceeds	28 931.0	28.5%	25 349.0	27.7%
Free of Payment	7 212.0	7.1%	5 175.0	5.7%
Initial Placement/ Re-opening	3 659.0	3.6%	3 347.0	3.7%
Pledges	467.0	0.5%	302.0	0.3%
Repurchase Agreement	49 553.0	48.8%	47 986.0	52.4%
Taxation	11 157.0	11.0%	8 836.0	9.7%
	101 542.0	100.0%	91 504.0	100.0%

For 2017, a total of 91 504 transactions were processed in JamClear®-CSD for both BOJ and GOJ instruments, a decline of 9.9 per cent relative to 2016. The nominal values for these transactions amounted to $23.1 trillion and US$14.2 billion (see Chart 54 and Chart 55). The Jamaica Dollar transactions grew by 62.3 per cent while total value of US dollar transactions declined by 11.5 per cent.

The JamClear®-CSD processed an average of 366 trades in securities each day, compared to an average of 405 trades in 2016. The value of securities denominated in JMD at end-2017 increased by 2.7 per cent to $838.9 billion. In contrast, there was a decline of 54.9 per cent in the value of securities denominated in foreign currency to US$0.7 billion relative to end-2016 (see Charts 56 and 57).

Chart 54: JamClear-CSD Annual JMD Values

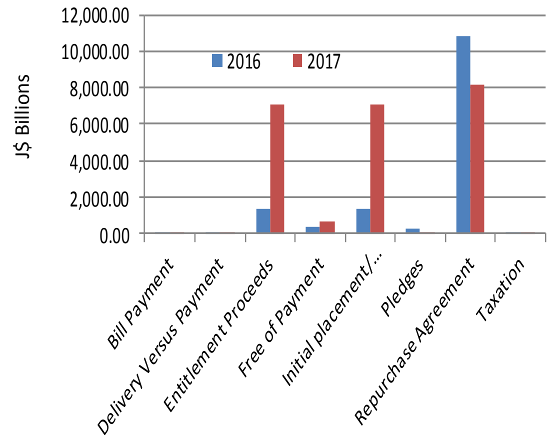


Chart 55: JamClear-CSD Annual USD Values

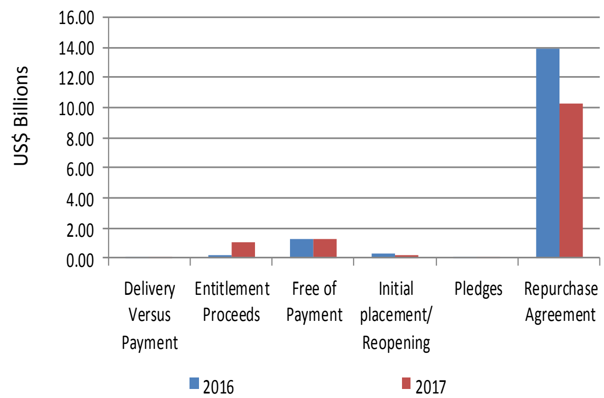


Chart 56: Outstanding JMD Securities - Nominal Values

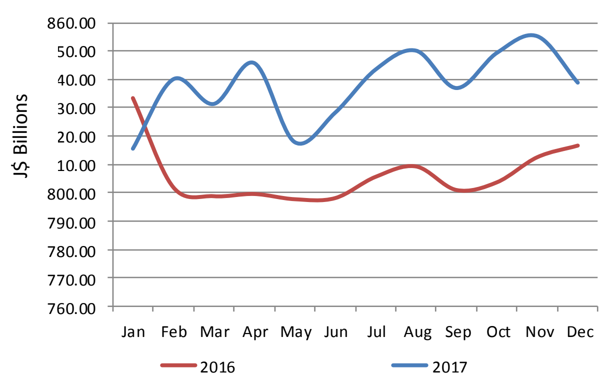
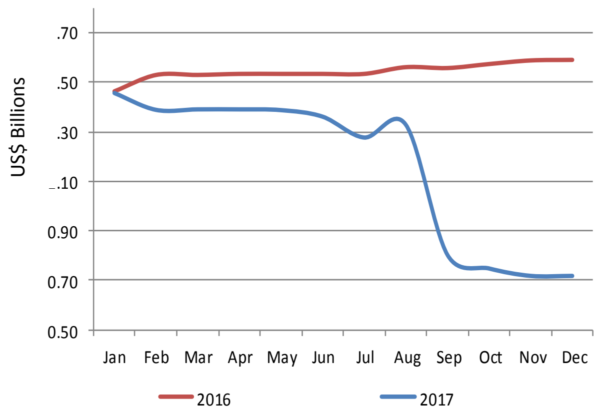


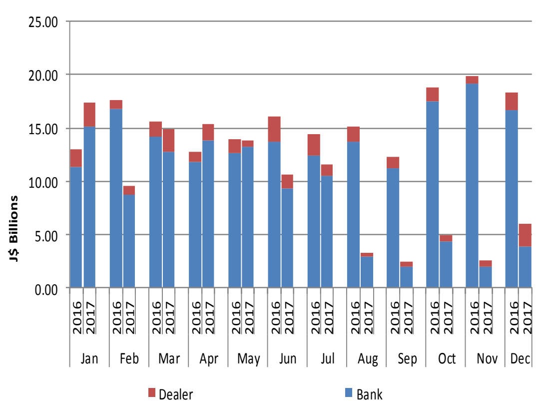
Chart 57: Outstanding USD Securities – Nominal Values



6.3. Auto Repo Facility

The Bank continued to provide intraday liquidity to participants through the Auto Repo Facility during 2017. The facility was accessed by 11 participants 2 974 times during the review year, reflecting a decline of 34.8 per cent in usage relative to 2016. Similarly, the average value of intraday liquidity declined over the review year, particularly during the second half of the year (see Chart 58).

Chart 58: Comparison of Daily Average Liquidity Utilised – 2016 & 2017



7. Currency Operations

7.1. Currency in Circulation

The value of banknotes in circulation stood at $106.8 billion at end-2017 (see Chart 59). This represented an increase of 13.2 per cent relative to end-2016. The $5000, $1000 and $500 notes accounted for 24.0 per cent, 62.5 per cent and 8.9 per cent, respectively, of the total value of notes in active circulation. These figures compare with 19.1 per cent, 66.4 per cent and 9.5 per cent, respectively, at end-2016.

Chart 59: Value of Banknotes in Circulation

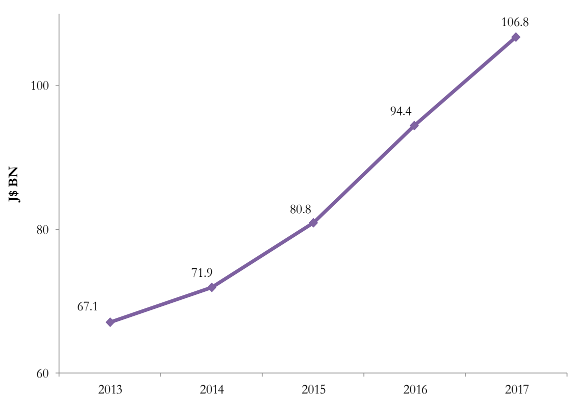
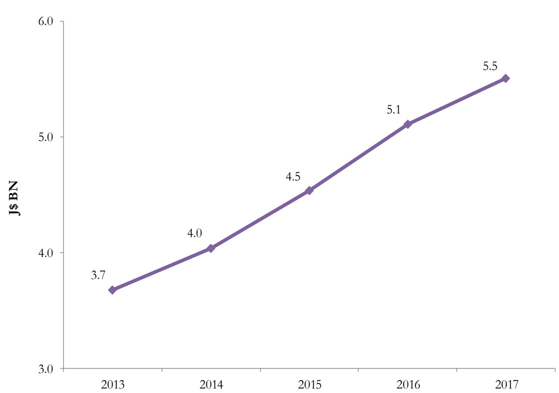


Chart 60: Value of Coins in Circulation



At end-2017, the value of coins in circulation was $5.5 billion, representing an increase of 7.7 per cent relative to end-2016 (see Chart 60). The $20 coin accounted for 42.3 per cent of the total value of coins in active circulation, while the $10, $5 and $1 coins represented 24.6 per cent, 15.0 per cent and 16.2 per cent, respectively. These outturns compare to 42.4 per cent, 24.5 per cent, 14.6 per cent and 16.5 per cent for the $20, $10, $5 and $1 coins, respectively, at end-2016.

7.2. Currency Issue

The total value of banknotes issued for 2017 amounted to $383.1 billion, 12.09 per cent above the previous year's value (see Table 57). The $1000 note continued to account for the largest proportion of the value of notes issued, representing 71.0 per cent, relative to 72.2 per cent in 2016. The $5000 denomination represented 14.0 per cent, an increase of 2.6 percentage points compared to 2016.

Table 57

COMPARISON OF DECIMAL NOTES ISSUED
Year ended 31 December 2017

	2016		2017		
Denomination	**Value J$ BN**	**Share %**	**Value J$ BN**	**Share %**	**Change %**
$5,000	38.9	11.4	53.6	14.0	38.0
$1,000	246.7	72.2	272.0	71.0	10.3
$500	46.2	13.5	47.5	12.4	2.8
$100	8.4	2.4	8.4	2.2	0.6
$50	1.7	0.5	1.6	0.4	-6.4
Total	**341.8**	**100.0**	**383.1**	**100.0**	**12.1**

Table 58

COMPARISON OF DECIMAL COINS ISSUED
Year ended 31 December 2017

	2016		2017		
Denomination	**Value J$ MN**	**Share %**	**Value J$ MN**	**Share %**	**Change %**
$20	394.9	50.3	275.1	47.7	- 30.3
$10	240.4	30.6	147.8	25.6	- 38.5
$5	84.1	10.7	98.4	17.1	17.1
$1	64.9	8.3	55.3	9.6	- 14.8
$0.25	0.7	0.1	0.4	0.1	- 48.7
$0.10	0.3	0.0	0.1	0.0	- 63.6
Total	**785.3**	**100.0**	**577.1**	**100.0**	**- 26.5**

The total value of coins issued during 2017 amounted to $577.1 million, 26.5 per cent below the total value issued for 2016 (see Table 58). The $20 coin accounted for 47.7 per cent of the total value of coins issued for 2017 relative to 50.3 per cent for 2016.

7.3. Currency Redemption

Banknotes redeemed during 2017 were valued at $370.6 billion, 12.9 per cent above the figure for 2016 (see Table 59). The $1000 and $500 banknotes accounted for 72.3 per cent and 12.7 per cent, respectively, of the value of banknotes redeemed for 2017 relative to 73.2 per cent and 14.0 per cent, respectively, in 2016.

Coins redeemed in 2017 were valued at $181.3 million, representing a decrease of 14.5 per cent relative to the figure for 2016 (see Table 60). The $20, $10 and $5 coins accounted for 62.1 per cent, 25.3 per cent and 9.9 per cent, respectively, of the total value of coins redeemed for 2017. These figures compare to 62.8 per cent, 25.4 per cent and 9.8 per cent, respectively, in 2016.

Table 59

COMPARISON OF DECIMAL NOTES REDEEMED
Year ended 31 December 2017

Denomination	2016 Value J$ BN	2016 Share %	2017 Value J$ BN	2017 Share %	Change %
$5,000	32.3	9.8	46.1	12.4	42.7
$1,000	240.5	73.2	267.9	72.3	11.4
$500	45.9	14.0	47.0	12.7	2.4
$100	8.2	2.5	8.1	2.2	- 1.2
$50	1.5	0.5	1.5	0.4	0.0
Total	**328.4**	**100.0**	**370.6**	**100.0**	**12.9**

7.4. Banknote Processing

For 2017, 425.9 million notes valued at $343.8 billion were processed by the Bank, compared to 430.7 million notes valued at $319.3 billion for the previous year. Of the total number of notes processed, 84.7 per cent were deemed fit for re-circulation, an increase of 0.5 percentage point relative to 2016. Banknotes considered unfit to re-enter circulation as well as counterfeit notes were destroyed.

Table 60

COMPARISON OF DECIMAL COINS REDEEMED
Year ended 31 December 2017

Denomination	2016 Value J$MN	2016 Share %	2017 Value J$MN	2017 Share %	Change %
$20	133.1	62.8	112.5	62.1	- 15.5
$10	53.9	25.4	45.9	25.3	- 14.8
$5	20.8	9.8	18.0	9.9	- 13.5
$1	4.0	1.9	4.3	2.4	7.5
$0.25	0.2	0.1	0.4	0.2	100.0
$0.10	0.1	0.0	0.2	0.1	100.0
Total	**212.1**	**100.0**	**181.3**	**100.0**	**- 14.5**

7.5. Banknote Durability

For 2017, the Average Circulation Lives (ACL) of the $5000, $1000 and $100 notes fell to 14.9 months, 15.8 months and 10.8 months, respectively, from 32.4 months, 16.4 months and 16.6 months, respectively, in 2016. However, the ACL of the $500 and $50 notes increased to 10.9 months and 20.4 months, respectively, in 2017 from 9 months and 16.5 months, respectively, for 2016 (see Table 61).

Table 61

Average Circulation Life (ACL)
Year ended 31 December 2017

Denomination	2016 (in months)	2017 (in months)	Change %
$5,000	32.4	14.9	- 54.1
$1,000	16.4	15.8	- 3.2
$500	9.0	10.9	21.2
$100	16.6	10.8	- 35.0
$50	16.5	20.4	23.7

7.6. Counterfeit Detection

The total number of counterfeit notes detected during 2017 was 4 014 representing a value of $4.7 million compared to 4 517 pieces valued at $4.9 million in 2016. The figure for 2017 was equivalent to 26 counterfeit notes per one million genuine notes in active circulation, relative to 32 pieces per million in 2016.

8. Administration

8.1. Overview

During 2017, the Bank continued to place special focus on increasing operational efficiency and effectiveness of the human resource administration function. The Bank also implemented capacity building strategies in the context of continued staff challenges.

Several initiatives were implemented to increase the quality of the human resource management service delivery during 2017. These initiatives included the alignment of processes, technology and the organizational structure. Notably, components of the Bank's recruitment and selection processes were reviewed to ensure conformance to best practices. Targeted training and development strategies continued to focus on developing knowledge, skills and abilities to support existing, new and expanding mandates as well as shared national responsibilities.

The Bank continued to be challenged by the loss of critical skills against the background of the institution's uncompetitiveness in the labour market. Consequently, programmes to build capacity were implemented to fill resource gaps and to ensure the Bank's operations were not severely disrupted.

During the review year, the process of undertaking planned organisational development reviews of portfolios which directly support the Bank's strategic mandate was continued. Emphasis was placed on reviewing the role and functions assigned to selected portfolios to ensure appropriate job design to promote efficiency and effectiveness in work processes and optimum output.

The Bank's Graduates Opportunity for Learning and Development (GOLD) Programme was again successfully executed with 43 persons selected for participation. The programme, which is part of the Bank's capacity building strategy, was aimed at developing a pool of candidates who are fully exposed to the fundamentals of central banking. The programme thus provided a pool of qualified persons from which vacancies could be filled. At the end of the programme, 36 participants were engaged on fixed-term contracts and assigned to fill key roles.

8.2. Staffing

At 31 December 2017, the Bank's staff complement was 585, comprising 445 permanent staff and 140 staff on fixed-term contracts. During the year, 68 persons were recruited and a total of 63 staff members exited the institution.

8.3. Employee Relations

The employee relations environment remained relatively stable during the review period notwithstanding the continuation of discussions on a number of issues including the Bank's competitiveness in the labour market. The Bank continued the implementation of employee engagement strategies to address the findings of a Work Environment and Employee Satisfaction Survey.

8.4. Pension Administration

The membership in the Bank's pension scheme as at 31 December 2017 stood at 1 046 comprising 441 active members, 379 pensioners, 197 deferred pensioners and 29 beneficiaries including spouses and dependent children. Of the 441 active members, 265 or 60 per cent were vested. A total of 39 persons attained pensionable status during the year, 22 staff members and 17 deferred pensioners. Additionally, eight persons proceeded on early retirement.

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9. Governance

9.1. Overview

The Bank of Jamaica Act stipulates that the Governor is the Chief Executive Officer of the Bank as well as Chairman of the Board of Directors. The Governor is responsible for overseeing the business of the Bank and more specifically, the formulation and implementation of monetary policy, the maintenance of financial system stability, the supervision and regulation of deposit-taking entities and other specified financial institutions, the issuance of currency and the provision of fiscal agency services to the Government. Under the Act, the Bank has statutory responsibility for Jamaica's international reserves and oversight of Jamaica's payment, clearing and settlement systems under the Payment Clearing and Settlement Act, 2010.

9.2. Board Membership

9.2.1. Membership

The Bank's Board of Directors is comprised of the Governor, the Senior Deputy Governor, the Financial Secretary and six independent directors appointed by the Minister of Finance for a three-year renewable term. The Governor, the Senior Deputy Governor and the Financial Secretary are ex-officio members of the Board.

During the year, Mr. Dayle Blair resigned from the Board effective 27 September 2017. Financial Secretary (assigned) Mr. Everton McFarlane demitted office and was replaced by Miss Darlene Morrison, Financial Secretary (acting) effective 01 August 2017. As at 31 December 2017, the members of the Board of Directors were Governor Brian Wynter (Chairman), Senior Deputy Governor John Robinson, Financial Secretary (acting) Darlene Morrison, Dr Christine Clarke, Mrs Andrea Coy, Mr Gary Hendrickson and Dr Wayne Henry. There are two vacancies on the board at present.

9.2.2. Responsibility

The Board has general responsibility for the conduct of the affairs of the Bank. All matters of importance outside the functions of daily management are submitted to the Board. Additionally, the Board on the recommendation of the Governor, appoints the auditors, attorneys, currency agents and other agents of the Bank, as well as Bank officials. In 2017, eleven meetings were held. The legal stipulation is for the Board to meet at least ten times in each year.

9.3. Committee Meetings

There are three standing committees of the Board: the Audit and Risk Management Committee, the Budget Committee and the Human Resource Development (HRD) Committee.

During the review year, the terms of reference of the Audit Committee of the Bank were amended to include risk management. The Committee's name was also changed to the Audit and Risk Management Committee. The Committee, chaired by Dr Christine Clarke, assists the Board in executing its mandate to provide independent effective oversight of the financial reporting process and internal controls, internal audit, external audit and enterprise risk management.

In 2017, the Audit Committee held four meetings in keeping with the requirement of its terms of reference.

The Budget Committee, chaired by Mr Gary Hendrickson, is responsible for monitoring and reviewing the Capital and Recurrent budgets of the Bank. The Committee may also meet at the request of the Board, to review the outturn against budget. Three meetings were held during 2017.

The HRD Committee was chaired by Mr Dayle Blair up to the date of his resignation from the Board. Mrs. Andrea Coy was appointed Committee Chair effective 15 November 2017. The Committee has the responsibility for reviewing, monitoring and making recommendations to the Board on human resources strategy and policies. Four meetings were held during 2017.

9.4. Statutory Committees

The promulgation of the Banking Services Act (BSA) and amendments to the Bank of Jamaica Act in 2014 laid the foundation for the improvement in Bank of Jamaica's governance framework and afforded the Bank the opportunity to more effectively and efficiently deliver its expanded mandate. The statutory committees were established pursuant to the provisions of the BSA and the Bank of Jamaica Act with responsibilities to support the Bank in its supervision and financial system stability functions.

9.4.1. Supervisory Committee

The *Supervisory Committee* (SC) is responsible for functions set out in the Banking Services Act, which include making determinations on the granting, refusal and revocation of licences, among other matters. The SC consists of five members: three ex-officio members and two members appointed by the Governor-General on the advice of the Minister, after consultation with the Supervisor. Ex-officio members are the Supervisor of banks, financial holding companies and other specified financial institutions ("the Supervisor"), the Deputy Supervisor, and a senior executive of the Bank's staff who has responsibility for financial stability oversight. As at 31 December 2017, the members of the SC were Governor Brian Wynter as the Supervisor, Deputy Supervisor Maurene Simms, Senior Deputy Governor John Robinson, Ms Shirley-Ann Eaton and Professor David Tennant. The SC had eight meetings during 2017.

9.4.2. Financial System Stability Committee

The *Financial System Stability Committee* (FSSC) provides support to the Bank in its functions in respect of the identification, mitigation and control of systemic threats to the financial system. The FSSC is largely tasked with making assessments in relation to financial system stability, making recommendations to the Bank for the discharge of its financial system stability mandate and contributing to the development of prescriptive rules, standards and codes for financial institutions which specifically address gaps and imbalances that could threaten financial system stability. The FSSC is comprised of eight members: six ex-officio members and two members appointed by the Minister on the recommendation of the Governor. Constituting the ex-officio members of the Committee are: the Governor, the senior officer of the Bank with assigned responsibility for the Bank's financial system stability mandate, the Financial Secretary, the Deputy Supervisor, the Executive Director of the Financial Services Commission (FSC) and the Chief Executive Officer (CEO) of the Jamaica Deposit Insurance Corporation (JDIC). As at 31 December 2017, the members were Governor Brian Wynter, Senior Deputy Governor John Robinson, Deputy Supervisor Maurene Simms, acting Financial Secretary Darlene Morrison, Mr Everton McFarlane (Executive Director of the FSC), Miss Antoinette McKain (CEO of JDIC), Mr Richard Powell and Mr Karl Wright.

9.4.3. Financial Regulatory Committee

The *Financial Regulatory Committee* (FRC), is not a committee of the Bank, but was established pursuant to the 2014 amendment of the Bank of Jamaica Act to facilitate information sharing, coordination and cooperation among regulatory authorities. This committee of regulators focusses on those policies and procedures appropriate to the strengthening and regulation of the financial system. The FRC is comprised of four ex-officio members. As at 31 December 2017, they were: the Governor, Mr Brian Wynter; the acting Financial Secretary, Miss Darlene Morrison; the Executive Director of the FSC, Mr Everton McFarlane and the CEO of the JDIC, Miss Antoinette McKain. The FRC is statutorily required to meet at least seven times in each year. During 2017, nine meetings were convened.

9.5. Executive Compensation

The Bank's Executive Management comprises the Governor, the Senior Deputy Governor, and four Deputy Governors. These officers were appointed under fixed-term contracts by the Minister of Finance and the Public Service, as provided for under the Bank of Jamaica Act.

The compensation of Executive Management for the year ended 31 December 2017 is described below.

Salary Range of Executive Management

$9,283,223.00 to $19,306,597.00

Allowances – Deputy Governors
$1,100,844.00 to $1,194,624.00

Members of the Executive Management team are eligible for benefits available to other members of staff, inclusive of health insurance, life insurance and staff loans. As at 31 December 2017, two of the Deputy Governors were members of the non-contributory pension scheme sponsored by the Bank. The Governor and three of the Deputy Governors are paid a gratuity in lieu of pension benefits.

The Governor is provided with a residence which is maintained by the Bank and is also eligible for reimbursement of prescribed overseas medical insurance premiums and expenses for his children's education. The Governor and the Deputy Governors are provided with motor vehicles or compensation in lieu of a motor vehicle.

Non-executive Directors of the Board are not remunerated for their services but are paid reimbursable expenses within the scale of rates approved by the Ministry of Finance and the Public Service for Directors of public bodies. They are not eligible for staff related benefits.

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10. Community Outreach

10.1. Overview

Bank of Jamaica acknowledges the importance of providing service to the community through engaging in public outreach programmes which benefit Jamaicans through education and the arts.

10.2. Support for Education

10.2.1. Schools' Education Programme

The School's Education Programme was designed to support the school curriculum in the areas of central banking and currency. Over the years, students at all levels of the local education system along with overseas universities have participated in one or all of the offerings under this initiative. In 2017, approximately 7 000 persons visited the Money Museum and participated in lectures on the role and responsibilities of the Bank.

10.2.2. Revision Seminars in Economics

Economics students from high schools across Jamaica participated in the annual revision seminars in Economics, held in the first quarter of the year. This allowed those students sitting the CAPE economics examinations to hear Bank of Jamaica economists explain some of the principles they would be tested on. Attendees were also pleased to learn from the IMF country representative in Jamaica who facilitated a robust discussion and expressed satisfaction with the knowledge and interest of the students.

10.2.3. G. Arthur Brown Scholarship

The 2017 G. Arthur Brown Scholarship was awarded to Mr. Alden Christian to pursue the Master of Science degree in Economics at the University of the West Indies. The scholarship is for two years and coverage began in September 2017.

10.2.4. St. Michael's Primary School

Bank of Jamaica has supported St. Michael's Primary School for over 20 years. In 2017, the Bank contributed to its academic programmes by financing the Summer School and providing photocopy services. The Bank also sponsored the Boys' and Girls' Day programmes which were created to build confidence in the youngsters and expose them to possible careers.

10.2.5. Exhibition

The Bank participated in the annual Seville Heritage Expoand the inaugural Falmouth Heritage Expo co-ordinated by the Ministry of Tourism.

10.3. Support for the Visual & Performing Arts

10.3.1. Art Collection

During 2017, the Bank continued its acquisition of local art and embarked on a programme of restoring important pieces in its collection which required intervention. Most notably was the refurbishing of the Noel Newton Nethersole statue which stands in the front of the Bank of Jamaica building. The Honourable Noel Nethersole was a Minister of Finance and is considered the "Father" of the Central Bank. In addition, the Bank loaned three paintings to the National Gallery of Jamaica for the Jamaica Biennial 2017 Tribute to Alexander Cooper.

10.3.2. Lunch Hour Concerts

In the review year twelve concerts were staged in the Bank's auditorium under the Lunch Hour Concert series. This programme exposes audiences to performers not widely known, as well as popular artistes. In excess of 3 000 patrons attended these concerts during the year.

10.3.3. An Evening with The University Singers

The Bank hosted the annual "An Evening with the University Singers" in the historic University Chapel in December 2017. As is customary, the celebrated choir delighted the capacity audience with its renditions of old favourites and original pieces.

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11. Bank of Jamaica's Strategic Plan 2018 - 2020

11.1. Overview

In the review year, the Bank conducted a comprehensive review of the 2016-2018 strategic plan. The review was undertaken in order to improve individual and corporate accountability while providing a more focussed approach to strategic and operational planning and project delivery.

The core principle of the strategic plan is expressed in the shared vision statement which articulates the future state of the Bank to be "*The world's leading central bank committed to excellence, fostering public confidence and contributing to the sustainable development of Jamaica*".

The Bank's mission was restated to emphasise the monetary and financial stability mandate within a context where the talented staff are fully recognised and the beneficial outcome to the people of Jamaica is sustained. The restated mission is "*To formulate and implement monetary and regulatory policies to promote price and financial system stability by being a trusted organization with motivated and professional employees working for the benefit of the people of Jamaica.*"

Embodied in the strategic plan are nine core values which describe what the Bank stands for in the context of the vision and mission. These are the ethical guidelines for decision making and behavioural conduct within the Bank.

In 2018 all elevators and meeting rooms will be branded with the vision, mission and core values (refer final page).

11.2. Strategic Plan 2018-2020

The strategic plan to be delivered over the period 2018-2020 is branded ***Mission Excellence***, while the tagline, *One Bank, One Vision, One Mission* retained from the previous strategy, is incorporated to reflect the Bank's continuous pursuit of excellence in all areas of its mandate.

Mission Excellence is underpinned by four pillars of excellence *themes,* which focus organizational effort on accomplishing the vision. The accompanying strategic results are the desired outcomes or goals for each theme.

The themes cut across the business and support functions of the organization, breaking down the vision into operational terms, highlighting the focus areas of the Bank's strategy. The strategic themes and results form the foundation of the strategic plan.

Strategic Objectives: the simple, easy-to-understand building blocks that make the strategy actionable, were derived from the collaborative effort of sixty staff members representing every division in the Bank across all staff levels, with the exception of the executive management. Staff members were divided into four teams, each representing a strategic theme. Using the vision, mission, core values and strategic objectives as the input, each theme's team members were tasked with the responsibility of developing the strategic objectives on which the Bank should focus the 2018-2020 strategy.

The effort resulted in four theme maps and accompanying objective commentaries, detailing the requirements for the creation of a Bank reflecting the vision of " the world's leading central bank…".

Using the outputs from each theme's team, the executive management team identified fourteen strategic objectives through an affinitisation process. These objectives are supported by twenty-four core initiatives.

Some of these initiatives will involve improvements to the Bank's outreach to the stakeholders and the public at large. These initiatives will include improved communication channels and increased awareness for public understanding of the mandate of the Bank and its operations.

The strategic plan will be formally launched in January 2018.

11.2.1 Strategic Planning Framework

For effective and successful implementation of the strategic plan the Balanced Scorecard Nine Steps to Success framework was adopted. This methodology provided the foundation for the conduct of a comprehensive review of the existing plan. The result is the delivery of a complete plan with strategic elements, objectives and initiatives which will be monitored and evaluated on a continuous basis over the life of the plan.

The strategic planning process is a change management initiative which will assist in transforming the Bank, over time, into a performance driven organization.

To support the delivery of the strategic plan, the Bank established the Strategic Planning and Project Management Centre (SPPM) in January 2017. The SPPM is responsible for the implementation of a structured, integrated strategic planning and project management programme focussing on performance based management. This is in order to ensure continuous alignment between the strategic objectives, initiatives, projects and operational activities bank wide.

The implementation of the strategic plan will enable the integration of functions and supporting personnel to ensure the achievement of *One Bank, One Vision, and One Mission.*

12. Calendar of Monetary Policy Developments

2017/01/09 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $6,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 7.45 per cent.

2017/01/11 Bank of Jamaica offered three instruments:
(i) The offer of BOJ FR USD-CD 2020M is for an unlimited amount. The tenor of this instrument is 3-years and offers a fixed coupon of 2.65 per cent per annum, which is 1.18 percentage points above the current rate of 1.47 per cent on 3-year US Treasury. The coupon is paid semi-annually.
(ii) The offer of BOJ FR USD-CD 2022M is for an unlimited amount. The tenor of this instrument is 5-years and offers a fixed coupon of 3.55 per cent per annum, which is 1.66 percentage points above the current rate of 1.89 per cent on 5-year US Treasury. The coupon is paid semi-annually.

(iii) The offer of BOJ FR USD-CD 2024A is for an unlimited amount. The tenor of this instrument is 7-years and offers a fixed coupon of 4.20 per cent per annum, which is 2.02 percentage points above the current rate of 2.18 per cent on 7-year US Treasury. The coupon is paid semi-annually.

2017/01/16 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $5,500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 7.45 per cent.

2017/01/23 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $4,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 7.56 per cent.

2017/01/30 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $7,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 7.71 per cent.

2017/02/06 Bank of Jamaica announces the offer of three USD CDs to the market as scheduled:

(i) The offer of BOJ FR USD-CD 2020N is for an unlimited amount. The tenor of this instrument is 3-years and offers a fixed coupon of 2.65 per cent per annum, which is 1.16 percentage points above the current rate of 1.49 per cent on 3-year US Treasury. The coupon is paid semi-annually.

(ii) The offer of BOJ FR USD-CD 2022N is for an unlimited amount. The tenor of this instrument is 5-years and offers a fixed coupon of 3.60 per cent per annum, which is 1.67 percentage points above the current rate of 1.93 per cent on 5-year US Treasury. The coupon is paid semi-annually.

(iii) The offer of BOJ FR USD-CD 2024B is for an unlimited amount. The tenor of this instrument is 7-years and offers a fixed coupon of 4.30 per cent per annum, which is 2.03 percentage points above the current rate of 2.27 per cent on 7-year US Treasury. The coupon is paid semi-annually.

2017/02/06 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $6,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 7.55 per cent.

2017/02/13 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $6,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 7.06 per cent.

2017/02/20 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $5,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 6.17 per cent.

2017/02/27 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $4,500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.94 per cent.

2017/03/02 Effective 02 March 2017, the interest rate payable on the SLF was reduced from 7.25 per cent to 7.00 per cent

2017/03/02 Effective 02 March 2017, the interest rate payable on overnight deposits was increased to 4.00 per cent from 3.00 per cent.

2017/03/06 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $5,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.94 per cent.

2017/03/09 The Bank of Jamaica announces the issue of one year fixed rate Certificates of Deposit. These instruments will be allocated through a competitive price auction using JamClear®-CSD. The offers are as follows:

(i) The offer of BOJ FR USD-CD 2018E. The Auction amount is 2,000,000,000 and the auction date Friday March 10, 2017. The maturity date is Wednesday March 14, 2018 and tenor 365 days.

(ii) The offer of BOJ FR USD-CD 2018F. The auction amount is 1,000,000,000 and the auction date Friday March 17, 2017. The maturity date is Wednesday March 21, 2018 and tenor 365 days.

(iii) The offer of BOJ FR USD-CD 2018G. The Auction amount is 1,000,000,000 and the auction date is Friday March 24, 2017. The maturity date is Wednesday March 28, 2018 and tenor 365 days.

2017/04/03 Effective April 03, 2017 the Cash reserve and Liquid Assets requirements of Building Societies with respect to Foreign Currency prescribed Liabilities will be increased to 15.0 per cent and 29.0 per cent respectively. The Cash Reserve and Liquid Assets requirements with respect to Local Currency prescribed liabilities remain unchanged.

The Cash reserve and Liquid Assets requirements of Commercial Banks with respect to Foreign Currency prescribed Liabilities will be increased to 15.0 per cent and 29.0 per cent respectively.

The Cash Reserve and Liquid Assets requirements with respect to Local Currency prescribed liabilities remain unchanged.

The Cash Reserve and Liquid Assets requirements of Merchant Banks with respect to Foreign Currency prescribed Liabilities will be increased to 15.0 per cent and 29.0 per cent respectively. The Cash Reserve and Liquid Assets requirements with respect to Local Currency prescribed liabilities remain unchanged.

2017/04/05 Effective 05 April 2017, the interest rate payable on the 30-day CD was reduced to 4.75 per cent from 5.00 per cent.

2017/04/05 Effective 05 April 2017, the interest rate payable on the SLF was reduced to 6.75 per cent from 7.00 per cent.

2017/04/05 Effective 05 April 2017, the interest rate payable on Overnight Deposit was reduced to 3.75 per cent from 4.00 per cent.

2017/04/10 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $2,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.29 per cent.

2017/04/11 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $5,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.42 per cent.

2017/04/13 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $4,500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.32 per cent.

2017/04/24 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $2,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.00 per cent.

2017/05/08 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $3,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.48 per cent.

2017/06/05 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $1,500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.81 per cent.

2017/06/12 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $1,500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.86 per cent.

2017/06/19 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $1,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.89 per cent.

2017/06/26 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $2,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.84 per cent.

2017/06/29 The Bank of Jamaica announces the issue of one year fixed rate Certificates of Deposit. These instruments will be allocated through a competitive price auction using JamClear®-CSD. The offers are as follows:

The offer of BOJ 5.80% FR JMD-CD 2018P. The Auction amount is JMD 2,000,000,000 and the auction date Friday June 30, 2017. The maturity date is Wednesday July 04, 2018 and tenor 365 days.

2017/07/01 Effective 01 July 2017, the Bank amended its policy rate to the interest rate it pays on overnight deposits from the interest rate it pays on its 30-day certificates of deposit.

2017/07/03 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $2,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.85 per cent.

2017/07/10 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $4,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.68 per cent.

2017/07/17 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $4,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.87 per cent.

2017/07/26 The first 30-day CD auction was conducted on 26 July 2017.

2017/07/26 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $4,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.13 per cent.

2017/07/31 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $1,300,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.14 per cent.

2017/08/04 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $1,000,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.07 per cent.

2017/08/14 BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.03 per cent.

2017/08/21	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 5.01 per cent.
2017/08/25	Effective 25 August 2017, the interest rate payable on the overnight deposit was reduced to 3.50 per cent from 3.75 per cent.
2017/08/25	Effective 25 August 2017, the interest rate payable on the SLF was reduced to 6.50 per cent from 6.75 per cent.
2017/08/30	Effective 30 August 2017, the coupon on the 30-Day CD was reduced to 4.50 per cent from 4.75 per cent.
2017/09/04	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 4.77 per cent.
2017/09/18	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 4.76 per cent.
2017/10/09	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 4.76 per cent.
2017/10/11	Effective 11 October 2017, the coupon on the 30-Day CD was reduced to 4.00 per cent from 4.50 per cent.
2017/10/13	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 4.80 per cent.
2017/10/23	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 4.77 per cent.
2017/10/30	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 4.78 per cent.
2017/11/06	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. No bids were received for the auction today.
2017/11/13	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. No bids were received for the auction today.

2017/11/20	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. No bids were received for the auction today.
2017/11/23	Effective 23 Nov 2017, the interest rate payable on the overnight deposit was reduced to 3.25 per cent from 3.50 per cent.
2017/11/23	Effective 23 Nov 2017, the interest rate payable on the SLF was reduced to 6.25 per cent from 6.50 per cent.
2017/11/23	Effective 23 Nov 2017, the interest rate on the Excess Funds Rate (EFR) was reduced to 9.25 per cent from 9.30 per cent.
2017/11/27	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. No bids were received for the auction today.
2017/12/04	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. No bids were received for the auction today.
2017/12/18	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. No bids were received for the auction today.
2017/12/22	BOJ 14-day Repurchase operation was conducted for provision of Jamaica Dollar liquidity amounting to $500,000,000.00 to DTI's. The amount offered was allocated through a competitive price auction. Following the auction, the weighted average yield was 4.61 per cent.

BANK OF JAMAICA

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

TO BANK OF JAMAICA

Pursuant to Section 43(1) of the Bank of Jamaica Act, we have audited the financial statements of Bank of Jamaica ("the Bank"), set out on pages 4 to 52, which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and other comprehensive income, changes in capital and reserves and cash flows for the year then ended, and notes, comprising of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG, a Jamaican partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

R. Tarun Handa
Cynthia L. Lawrence
Rajan Trehan
Norman O. Rainford
Nigel R. Chambers
W. Gihan C. de Mel
Nyssa A. Johnson
Wilbert A. Spence
Rochelle N. Stephenson

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO BANK OF JAMAICA

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

KPMG

Page 3

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO BANK OF JAMAICA

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Chartered Accountants
Kingston, Jamaica

February 28, 2018

BANK OF JAMAICA

Statement of Financial Position
December 31, 2017

	Notes	2017 J$'000	2016 J$'000
ASSETS			
Foreign assets:			
Notes and coins		220,672	71,632
Cash and cash equivalents	4	85,695,234	265,542,331
Interest in funds managed by agents	5	43,515,254	42,930,138
Investment securities	6	304,556,020	73,542,419
International Monetary Fund - Holding of Special Drawing Rights		29,020,355	29,929,849
Bilateral accounts		-	20,056
International Monetary Fund – Quota subscription	7	10,374,162	10,060,734
Total foreign assets		473,381,697	422,097,159
Local assets:			
Notes and coins		104,861	92,592
Resale agreements	8	350,000	16,550,000
Investment securities	9	128,267,902	124,723,099
Due from Government and Government Agencies	10	41,620,292	36,782,107
Property, plant and equipment	11	4,561,339	4,482,117
Intangible asset	12	233,638	289,425
Employee benefits asset	13(a)	4,736,600	4,823,200
Other	14	3,413,376	3,763,944
Total local assets		183,288,008	191,506,484
Total assets		656,669,705	613,603,643

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Financial Position (continued)
December 31, 2017

	Notes	2017 J$'000	2016 J$'000
LIABILITIES, CAPITAL AND RESERVES			
Liabilities:			
Notes and coins in circulation	15	110,910,693	98,203,483
Deposits and other demand liabilities	16	306,619,783	264,335,816
Open market liabilities	17	177,136,165	192,854,641
International Monetary Fund -			
Allocation of Special Drawing Rights	18	46,418,701	45,016,212
Foreign liabilities		2,206	319
Employee benefits obligation	13(b)	2,327,800	1,698,800
Bilateral accounts		43,867	-
Other	19	2,388,568	2,270,562
Total liabilities		645,847,783	604,379,833
Capital and reserves:			
Share capital	20	4,000	4,000
General reserve fund	21	20,000	20,000
Special stabilisation account	22	1,377,337	1,278,391
Other reserves	23	9,420,585	7,921,419
Total capital and reserves		10,821,922	9,223,810
Total liabilities, capital and reserves		656,669,705	613,603,643

The financial statements on pages 4 to 52 were approved for issue by the Board of Directors on February 28, 2018 and signed on its behalf by:

Governor
Brian Wynter

Deputy Governor
Livingstone Morrison

Financial Controller
Ian Williams

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2017

	Notes	2017 J$'000	2016 J$'000
Operating income:			
Interest	24	17,144,579	14,430,641
Foreign exchange gain, net	25	-	5,585,071
Other		430,360	183,136
Total operating income		17,574,939	20,198,848
Operating expenses:			
Interest on deposits and open market liabilities	26	9,667,785	9,865,293
Interest on IMF loan		1,615,882	998,075
Foreign exchange loss	25	7,746,911	-
Staff costs	27	2,930,343	2,888,842
Currency expenses		1,260,296	1,344,915
Depreciation and amortisation		428,323	416,170
Other property expenses		558,333	456,739
Other operating expenses	28	995,846	965,606
Total operating expenses		25,203,719	16,935,640
Operating (loss)/profit		(7,628,780)	3,263,208
Other income/(expenses):			
Pension, medical and life insurance	13	(77,700)	2,100
Gain on remeasurement of staff loans		25,058	19,050
Loss on disposal of securities designated as available-for-sale		(162,210)	(22,515)
Gain on disposal of property, plant and equipment		4,242	2,578
(Loss)/profit for the year before transfer to pension equalisation reserve		(7,839,390)	3,264,421
Transfer to pension equalisation reserve	23(c)	(174,500)	(186,400)
(Loss)/profit for the year transferred to general reserve fund	10(b)	(8,013,890)	3,078,021
Other comprehensive income/(loss):			
Items that will never be reclassified to profit or loss:			
Gain on revaluation of land and building		-	68,796
Remeasurement of pension asset and obligation, net	13	(760,800)	(514,400)
Item that is or will be reclassified to profit or loss:			
Change in fair value of available-for-sale securities		1,994,666	(438,068)
Total other comprehensive income/(loss) for the year		1,233,866	(883,672)
Total comprehensive (loss)/income for the year		(6,780,024)	2,194,349

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Changes in Capital and Reserves
Year ended December 31, 2017

	Share capital J$'000 (Note 20)	General reserve fund J$'000 (Note 21)	Special stabilisation account J$'000 (Note 22)	Other reserves J$'000 (Note 23)	Total J$'000
Balances at December 31, 2015	4,000	20,000	1,135,011	8,524,091	9,683,102
Total comprehensive income for the year:					
Profit for the year	-	3,078,021	-	-	3,078,021
Other comprehensive loss:					
Realised change in fair value of available-for-sale securities	-	-	-	2,951,873	2,951,873
Unrealised change in fair value of available-for-sale securities	-	-	-	(3,389,941)	(3,389,941)
	-	-	-	(438,068)	(438,068)
Gain on revaluation of land and building	-	-	-	68,796	68,796
Remeasurement of pension asset and obligation, net	-	-	-	(514,400)	(514,400)
Total other comprehensive loss	-	-	-	(883,672)	(883,672)
Total comprehensive income	-	3,078,021	-	(883,672)	2,194,349
Other changes in reserves:					
Profit due to consolidated fund (note 10)	-	(3,078,021)	-	-	(3,078,021)
Transfer from coins in circulation	-	-	143,380	-	143,380
Transfer of surplus on defined benefit pension scheme	-	-	-	281,000	281,000
	-	(3,078,021)	143,380	281,000	(2,653,641)
Balances at December 31, 2016	4,000	20,000	1,278,391	7,921,419	9,223,810
Total comprehensive loss for the year:					
Loss for the year	-	(8,013,890)	-	-	(8,013,890)
Other comprehensive income:					
Realised change in fair value of available For sale securities	-	-	-	811,996	811,996
Unrealised change in fair value of available-for-sale securities	-	-	-	1,182,670	1,182,670
	-	-	-	1,994,666	1,994,666
Remeasurement of pension asset and obligation, net	-	-	-	(760,800)	(760,800)
Total other comprehensive income	-	-	-	1,233,866	1,233,866
Total comprehensive loss	-	(8,013,890)	-	1,233,866	(6,780,024)
Other changes in reserves:					
Due from consolidated fund for loss (note 10)	-	8,013,890	-	-	8,013,890
Transfer from coins in circulation	-	-	98,946	-	98,946
Transfer of surplus on defined benefits pension scheme	-	-	-	265,300	265,300
	-	8,013,890	98,946	265,300	8,378,136
Balances at December 31, 2017	4,000	20,000	1,377,337	9,420,585	10,821,922

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Cash Flows
Year ended December 31, 2017

	Notes	2017 J$'000	2016 J$'000
Cash flows from operating activities:			
(Loss)/profit for the year		(7,839,390)	3,264,421
Adjustments for:			
Depreciation – property, plant and equipment	11	344,319	326,423
Amortisation – intangible asset	12	84,004	89,746
Gain on disposal of property, plant and equipment		(4,242)	(2,578)
Employee benefits, net		220,100	157,600
Unrealised exchange gain		6,227,742	(25,262,305)
Unrealised exchange gain on International Monetary Fund Quota Subscription	7	(313,428)	(180,465)
Unrealised exchange loss on International Monetary Fund - Allocation of SDR's		1,402,489	1,517,030
Interest income	24	(17,144,579)	(14,430,641)
Interest expense		11,283,667	10,863,368
Operating loss before changes in other assets and other liabilities		(5,739,318)	(23,657,401)
Other assets		878,082	(724,974)
Other liabilities		517,182	(3,274,668)
Due from Government and Government Agencies		2,983,706	(1,029,850)
Interest received		16,635,037	10,886,075
Interest paid		(11,619,393)	(8,915,985)
Net cash provided/(used) by operating activities		3,655,296	(26,716,803)
Cash flows from investing activities:			
International Monetary Fund - Holding of Special Drawing Rights		909,495	(4,596,562)
Interest in funds managed by agents		(1,762,319)	371,499
Foreign currency denominated investments		(233,173,749)	5,410,553
Local currency denominated investments		(1,316,842)	2,122,998
Resale agreements		16,200,000	399,931
Additions to property, plant and equipment	11	(458,602)	(202,091)
Additions to intangible asset	12	(28,217)	(333,387)
Proceeds from disposal of property, plant and equipment		39,303	49,433
Net cash (used)/provided by investing activities		(219,590,931)	3,222,374
Cash flows from financing activities:			
Notes and coins in circulation		12,806,155	14,095,679
Deposits and other demand liabilities		41,378,429	25,946,216
Open market liabilities		(15,718,476)	31,545,532
Foreign liabilities		3,183	(5,303)
Net cash provided by financing activities		38,469,291	71,582,124
Net (decrease)/increase in cash and cash equivalents		(177,466,344)	48,087,695
Cash and cash equivalents at beginning of year		265,706,555	204,253,395
Effect of exchange rate fluctuation on cash held		(2,219,444)	13,365,465
Cash and cash equivalents at end of year		86,020,767	265,706,555
Cash and cash equivalents at December 31 comprise:			
Foreign cash and cash equivalents	4	85,695,234	265,542,331
Foreign notes and coins		220,672	71,632
Local notes and coins		104,861	92,592
		86,020,767	265,706,555

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Notes to the Financial Statements
Year ended December 31, 2017

1. Identification

   Bank of Jamaica (hereafter "the Bank") was established under the Bank of Jamaica Act (hereafter "the Act"), which was most recently amended on November 21, 2017. The Bank is domiciled in Jamaica and its principal office is located at Nethersole Place, Kingston, Jamaica.

   The principal objects of the Bank, as set out in the Act, are to issue and redeem notes and coins; to keep and administer the external reserves of Jamaica; to influence the volume and conditions of supply of credit so as to promote the fullest expansion in production, trade and employment, consistent with the maintenance of monetary stability in Jamaica and the external value of the currency; to foster the development of money and capital markets in Jamaica; and to act as banker to the Government of Jamaica.

2. Basis of preparation

   (a) Statement of compliance

   The financial statements are prepared in accordance with the relevant provisions of the Bank of Jamaica Act, and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

   Amended standards that became effective during the year

   Certain amended standards came into effect during the current financial year. The Bank has adopted those which are relevant to its operations, but their adoption did not result in any material changes to amounts recognised or disclosed in these financial statements.

   Standards issued that are not yet effective

   At the date of authorisation of these financial statements, certain new and amended standards have been issued which were not effective at the reporting date and which the Bank has not early-adopted. The Bank has assessed them with respect to its operations and has determined that the following are relevant to its financial statements:

   (i) The Bank is required to adopt IFRS 9 *Financial Instruments* from January 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

   However, the Bank is still in the process of its assessment and the final impact has not yet been determined.

   IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

Standards issued that are not yet effective (continued)

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

The Bank believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. However, the Bank is still in the process of determining the likely financial impact on its financial statements.

IFRS 9 will require extensive disclosures, in particular for credit risk and ECLs. The Bank's assessment included an analysis to identify data gaps in current processes and the Bank is in the process of implementing the system and control changes that it believes will be necessary to capture the required data.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at January 1, 2018.

- The Bank will determine the business model within which a financial asset is held based on the facts and circumstances that exist at the date of initial application.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

Standards issued that are not yet effective (continued)

(ii) The Bank is required to adopt IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018. The standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

The Bank will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

Management has assessed that the main impact of this standard is in respect of fees and commission income. The Bank earns fees from services charges to commercial banks and government agencies. Based on preliminary review, IFRS 15 is not expected to have a material impact on the timing and recognition of fee income. However, management has not yet completed its assessment and the financial impact has not yet being determined.

(iii) IFRS 16, *Leases,* which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessees will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.

The Bank is assessing the impact that the standard will have on its 2019 financial statements.

(b) Functional and presentation currency

The financial statements are presented in Jamaica Dollars (J$), which is the Bank's functional currency.

2. Basis of preparation (continued)

(c) Basis of measurement

The financial statements are prepared on the historical cost basis, except that:

(i) available-for-sale investments and certain classes of property, plant and equipment are included at fair value; and

(ii) the defined benefit asset is recognised as plan assets, less the present value of the defined benefit obligation, adjusted for the effect of limiting the net defined benefit asset to the asset ceiling as explained in note 3(f).

(d) Estimation uncertainty and judgements

The preparation of financial statements in conformity with IFRSs requires the use of accounting estimates, based on assumptions. It also frequently requires management to exercise its judgement in the process of applying IFRSs and the Bank's accounting policies. These estimates and judgements affect the reported amounts of, and disclosures relating to assets, liabilities, income, expenses, contingent assets and contingent liabilities.

Estimates and the assumptions underlying them are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

(i) Judgements

For the purpose of these financial statements prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS.

The determination of whether a security may be classified as 'loans and receivables'(note 6) or 'held to maturity' (note 9) or whether a security's fair value may be classified as 'Level 1' in the fair value hierarchy (note 32) requires judgement as to whether or not a market is active.

(ii) Key sources of estimation uncertainty

Financial statement amounts that have been significantly affected by estimates, and/or which could change significantly in the next financial year as a result of a change in the estimate, are as follows:

(1) Pension and other post-retirement benefits

The amounts recognised in the statements of financial position and profit or loss and other comprehensive income for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations, and the expected rate of increase in medical costs for post-retirement medical benefits.

2. Basis of preparation (continued)

(d) Estimation uncertainty and judgements (continued)

(ii) Key sources of estimation uncertainty (continued)

(1) Pension and other post-retirement benefits (continued)

The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Bank's obligation. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenure security on the market. The estimated rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

(2) Fair values of financial instruments

There are no quoted market prices for a significant portion of the Bank's financial instruments. Accordingly, fair values of such financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach which is categorised as a level 2 fair value; consequently, the estimates arrived at may be different from the actual price of the instrument in an actual arm's length transaction (see notes 6,9 and 32).

(3) Fair value of property, plant and equipment

Fair values of the Bank's non-financial assets are not readily determinable. The fair value of property, plant and equipment is therefore determined by property valuers, as set out in note 11, using largely unobservable inputs, making it a level 3 fair value.

3. Significant accounting policies

(a) Financial instruments – Classification, recognition and de-recognition, and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements:

- Financial assets have been determined to comprise cash and cash-equivalents, interest in funds managed by agents, investment securities, IMF – holding of special drawing rights, bilateral accounts, resale agreements, IMF – quota subscription, due from Government and Government agencies and staff and ex-staff loans.

- Financial liabilities comprise deposits and other demand liabilities, open market liabilities, IMF – allocation of special drawing rights, foreign liabilities and bilateral accounts and payables.

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued)

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

(i) Classification of financial instruments

The Bank classifies non-derivative financial assets into the following categories:

Loans and receivables: Securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market, are classified as loans and receivables. The Bank's financial instruments included in this classification are resale agreements, local and foreign currency denominated securities which do not have a quoted market price in an active market and whose fair values cannot be reliably determined, and interest-bearing deposits.

Held-to-maturity: Securities with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity. The Bank's financial instruments included in this classification are the Government of Jamaica-issued fixed rate accreting notes.

Available-for-sale: Investments are classified as available-for-sale, because they are designated as such or are not classified in any of the other categories. The Bank's financial instruments included in this classification are securities with quoted prices in an active market or for which the fair values are otherwise determinable, including interest in funds managed by agents.

Management determines the appropriate classification of investments at the time of purchase, taking account of the purpose for which the investments were purchased.

The Bank classifies non-derivative financial liabilities into the other financial liabilities category.

(ii) Recognition and derecognition - Non-derivative financial assets and financial liabilities

The Bank recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The Bank initially recognises loans and receivables and debt securities on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued)

(ii) Recognition and derecognition - Non-derivative financial assets and financial liabilities (continued)

The Bank derecognises a financial liability when its contractual obligations expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has the legal right to offset the amounts and intends either to settle them on a net basis, or to realise the assets and settle the liabilities simultaneously.

(iii) Measurement - Non-derivative financial assets

Loans and receivables: On initial recognition these are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Held-to-maturity instruments: On initial recognition these are measured at fair value, plus any directly attributable transaction costs. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Any sale or reclassification of a significant amount of held-to-maturity investments that is not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the financial year in which sale or reclassification occurs and the following two financial years.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued)

(iii) Measurement - Non-derivative financial assets (continued)

Available-for-sale instruments: On initial recognition, these are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with unrealised gains and losses arising from changes in fair value treated as follows:

- Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.

- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the accumulated fair value adjustments accumulated in other comprehensive income are reclassified to profit or loss.

(iv) Specific items

(1) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments (these investments include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash and cash equivalents are measured at cost.

(2) Resale agreements

Resale agreements are accounted for as short-term collateralised lending. They are classified as loans and receivables and measured at amortised cost.

Interest earned on resale agreements is recognised as interest income over the life of each agreement using the effective interest method.

(3) Other assets

Other assets are measured at amortised cost, less impairment losses.

(4) Other liabilities

Other liabilities are measured at amortised cost.

3. Significant accounting policies (continued)

(b) Foreign currencies

The rate of exchange of the Jamaica Dollar for the United States dollar is determined by the weighted average rate of trades reported by authorised foreign exchange dealers and cambios and the rate at which the Bank itself buys United States dollars. The rates of exchange for other currencies are derived from the US dollar rate, thus determined, using rates published by The World Markets Company Plc (WM Reuters).

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rates prevailing at that date. Transactions in foreign currencies are translated at the foreign exchange rates ruling at the dates of those transactions.

Gains and losses arising on fluctuations in exchange rates are included in profit or loss.

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, except for freehold land and buildings, which are measured at fair value.

- Cost

  Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to the location and condition where it is ready for its intended use.

  The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and it can be measured reliably.

  The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

- Fair value

  The fair value of freehold land and buildings is the price that would be received to sell them in an orderly transaction between market participants at the valuation date. Such fair value is determined by an external, independent valuer, with appropriate recognised professional qualification and recent experience in the location and category of land and buildings being valued. The Bank's policy is to obtain an independent professional valuation of all its land and buildings every five years. Management's assessment of significant movement in fair value is done for the intervening years and adjustment made to valuation, as necessary.

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(ii) Depreciation

Property, plant and equipment are depreciated on the straight-line basis at annual rates estimated to write down the assets to their residual value over their estimated useful lives. Leasehold property is amortised in equal instalments over the shorter of the lease term and the property's estimated useful life.

Land, works of art and museum coins are not depreciated.

The estimated useful lives are as follows:

Buildings	10 – 20 years
Leasehold property	Shorter of lease term and useful life
Furniture, plant and equipment	10 years
Computer equipment	5 years
Motor vehicles	5 years

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

(d) Notes and coins in circulation

The nominal value of numismatic coins sold is included in notes and coins in circulation. The net proceeds from such sales are included in profit or loss.

Notes and coins in circulation is stated after a deduction of 25% of the value of coins in circulation in accordance with the Bank of Jamaica (Value of Coins in Circulation) Order 1973, as permitted under Section 22 of the Act. The deductions are credited to the special stabilisation account.

(e) Taxation

The Bank is still exempt from income tax under Section 12(b) of the Income Tax Act. The Bank's supplies are substantially exempt from general consumption tax (GCT); it incurs GCT at standard rates on taxable supplies acquired.

(f) Employee benefits

Employee benefits comprise all forms of consideration given by the Bank in exchange for service rendered by employees. These include current or short-term benefits such as salaries, NIS contributions, annual vacation leave, and non-monetary benefits such as medical care and life insurance; post-employment benefits such as pension and medical care; and other long-term employee benefits such as termination benefits.

3. Significant accounting policies (continued)

(f) Employee benefits (continued)

(i) General benefits

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The estimated cost of accumulated vacation leave is recognised annually. Post-employment benefits are accounted for as described in (ii) and (iii) below.

(ii) Post-employment benefits - defined benefit pension plan

In respect of defined-benefit arrangements, employee benefits and obligations included in the financial statements are determined annually by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the Bank's post-employment benefit asset and obligation as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The cost of the pension benefits the Bank is committed to providing is the total of (1) the net obligation under the plan for services rendered and (2) the cost of administration of the plan – both of which costs are borne by the Bank.

The Bank's net obligation under its defined-benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at the reporting date on long-term government securities with maturities approximating the terms of the Bank's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit asset, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised in other comprehensive income. The Bank determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit asset at the beginning of the year to the net defined benefit asset, taking into account any changes in the net defined benefit asset during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of the plan are changed or when the plan is contracted, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3. Significant accounting policies (continued)

(f) Employee benefits (continued)

(ii) Post-employment benefits - defined benefit pension plan (continued)

Where the calculation results in a benefit to the Bank, the recognised asset is limited to the net present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Post-employment defined benefits – medical care and life insurance

The Bank's obligation in respect of unfunded long-term employee medical care and life insurance are the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is then discounted to determine its present value. The discount rate is determined as per the defined benefit pension plan set out at (ii) above. The calculation is performed by a qualified actuary using the projected unit credit method. Remeasurements of the defined obligation as well as net interest expense is recognised in the same manner as described at (ii) above for the defined-benefit pension plan.

(g) Statutory transfer of profits and losses

Section 9 of the Act provides for each financial year's net income to be credited, or net loss to be charged, to the General Reserve Fund, and for the balance on the General Reserve Fund in excess of five times the Bank's authorised share capital to be transferred to the Consolidated Fund. Likewise, any losses not covered by reserves are required by the Act to be funded by Government out of the Consolidated Fund.

(h) Impairment

The carrying amounts of the Bank's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amounts of the Bank's investment classified as loans and receivables and other assets are calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in each asset. Receivables with a short-term duration are not discounted.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

3. Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Reversals of impairment

An impairment loss in respect of loans and receivables measured at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For all other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

(i) Intangible asset:

Intangible asset represents software and is measured at cost less accumulated amortisation and impairment losses. The asset is amortised on the straight line basis at an annual rate estimated to write down the asset to its residual value over its estimated useful life of 5 years.

(j) Revenue recognition:

Revenue is income that arises in the course of the ordinary activities of the Bank, comprising interest income and foreign exchange gains from holding foreign currency denominated financial assets.

(i) Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discounts on treasury bills and other discounted instruments, net of amortisation of premiums on instruments bought at a premium.

(ii) Foreign exchange gains

Foreign exchange gains are recognised as set out in note 3(b).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

4. Cash and cash equivalents

	2017 J$'000	2016 J$'000
Current accounts and money at call with foreign banks	84,639,298	262,740,010
Current accounts with local banks	1,055,936	2,802,321
	85,695,234	265,542,331

5. Interest in funds managed by agents

This represents investments managed by Crown Agents Investment Management Limited ("CAIML") and the International Bank for Reconstruction and Development (IBRD) on behalf of the Bank and classified as available-for-sale. The portfolio consists of investments in government bonds, treasury bills and corporate bonds.

6. Foreign currency denominated investments

	2017 J$'000	2016 J$'000
Available-for-sale securities:		
USD Bonds issued primarily by specialised financial corporations	38,144,960	4,221,497
Loans and receivables:		
Short-term deposits with foreign banks	266,411,060	69,320,922
	304,556,020	73,542,419

7. International Monetary Fund – Quota Subscription

This represents the portion of Jamaica's fee for membership of the International Monetary Fund (IMF), based on its quota, which was paid by the Bank (the other portion having been subscribed by the Government of Jamaica). The Bank holds, on behalf of the IMF, promissory notes issued by the Government reflecting the Jamaica dollar value of the unpaid subscription quota allocated to Jamaica. The Jamaica dollar value of the promissory notes issued are determined by the Special Drawing Rights (SDR) to Jamaica dollar (J$) at April 30 of each year. The Jamaica dollar amounts in the table below are computed using the SDR: J$ rate at December 31. Jamaica is assigned a quota of SDR 382,900,000, which represents 0.008% of the total quota allocated by the IMF. Quotas are reviewed every five years, when adjustments may be considered.

	SDR'000	2017 J$'000	2016 J$'000
Amount subscribed by the Government of Jamaica (substituted by securities)	324,425	57,556,861	55,817,935
Amount subscribed by the Bank	58,475	10,374,162	10,060,734
Total quota	382,900	67,931,023	65,878,669

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

7. International Monetary Fund – Quota Subscription

		2017	2016
	SDR'000	J$'000	J$'000
Amount subscribed by the Bank:			
At beginning of year	58,475	10,060,734	5,174,650
Movement during the year	-	-	4,705,619
Effect of exchange rate fluctuation *	-	313,428	180,465
At end of year	58,475	10,374,162	10,060,734

*The exchange rate at the reporting date is set out at note 16(d)(iv).

8. Resale agreements

The Bank, as one of its options in pursuing its monetary policy objectives, enters into various resale agreements with financial institutions. Under these agreements, the Bank purchases Government of Jamaica ("GOJ") securities and agrees to resell them to the respective counter-parties on specified dates and at specified prices. These are accounted for as short-term collateralised lending [note 3(a)(iv)(2)]. Section 23(f) of the Act requires the Bank to obtain collateral with a market value that is 1⅓ times the amount of the credit granted to each financial institution. At December 31, 2017, securities held had a fair value of $467,000,000 (2016: $22,145,086,000).

9. Local currency denominated investments

	2017	2016
	J$'000	J$'000
Available-for-sale securities:		
Jamaica Government Securities:		
Variable rate benchmark investments	34,721,929	34,719,877
Fixed rate benchmark investments	14,175,518	11,947,695
	48,897,447	46,667,572
Held to maturity investments:		
Jamaica Government Securities:		
Fixed rate accreting notes ("FRANs") [See note re National Debt Exchange ("NDX") below]	79,370,455	78,055,527
	128,267,902	124,723,099

As part of the NDX, GOJ mandated the Bank [and all other state-owned/controlled entities that held GOJ - issued notes ("Old Notes")] to exchange those Old Notes for new notes - FRANs - as at February 22, 2013. Old notes with a carrying amount of $94,833,000,000 at that date were exchanged for FRANs with a fair value of $73,748,000,000 resulting in a loss of $21,085,000,000.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

9. Local currency denominated investments (continued)

In summary, under the terms of the FRANs:

(i) A holder of Old Notes was issued J$80 of initial principal value of FRANs for every J$100 of principal value of Old Notes;

(ii) Interest is payable semi-annually on February 15 and August 15 at a fixed rate of 10% p.a. on the accreted principal value with the first payment made on August 15, 2013;

(iii) Accretion for the additional J$20 of principal value commenced in August 2015 as follows:
- 0.5% of $100 every six months from August 15, 2015 until August 15, 2020;
- Thereafter, 1.0% of $100 every six months until August 15, 2026; and
- Thereafter, 1.5% of $100 every six months until August 15, 2027.

(iv) The FRANs may be redeemed by GOJ on any interest payment date after August 15, 2020. The value at which the FRAN could be redeemed was not specified in the offer document.

10. Due from Government and Government Agencies

	2017			
		Movements during the year		
	At beginning of year	Advances/ losses	(Settlement)/ profit	At end of year
	J$'000	J$'000	J$'000	J$'000
Withholding tax refund due [see notes (c) and (d) below]	8,116,569	1,225,485	(4,386,074)	4,955,980
Accrued interest on Government securities	3,454,446	3,439,330	(3,454,446)	3,439,330
Net loss receivable from Consolidated Fund [see (b) and (d) below]	25,211,092	8,013,890	-	33,224,982
	36,782,107	12,678,705	(7,840,520)	41,620,292

	2016			
		Movements during the year		
	At beginning of year	Advances/ losses	(Settlement)/ profit	At end of year
	J$'000	J$'000	J$'000	J$'000
Withholding tax refund due [see notes (c) and (d) below]	7,144,530	1,627,386	(655,347)	8,116,569
Accrued interest on Government securities	3,536,031	3,454,446	(3,536,031)	3,454,446
Net loss receivable from Consolidated Fund [see (b) and (d) below]	28,289,113	-	(3,078,021)	25,211,092
	38,969,674	5,081,832	(7,269,399)	36,782,107

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

10. Due from Government and Government Agencies (continued)

(a) By virtue of Section 36 of the Act, the Bank is empowered to make advances to the Government of up to thirty percent of the estimated revenue of Jamaica for the financial year of the Government. Such advances are to be repaid within three months of the end of the financial year in which the advances were made. Where advances are not duly repaid, the Bank is prohibited from granting further advances in any subsequent financial year until the outstanding advances are repaid. There was no advance given in 2016 and 2017.

(b) The Government is required by the Act to pay to the Bank, out of the Consolidated Fund, amounts to cover losses incurred by the Bank. Section 9(3) of the Act provides that if, in the opinion of the Minister of Finance, payment to clear the losses cannot be made from the Consolidated Fund, such losses may be cleared by the issue of securities to the Bank chargeable to the Consolidated Fund.

(c) Income tax is withheld on income earned by the Bank on its holding of securities (in practice, this is GOJ securities) in accordance with Section 31A of the Income Tax Act as an advance on payment of income tax which may be due. However, as the Bank is exempt from income tax, the entire amount of tax withheld is recoverable from Tax Administration Jamaica.

At the reporting date, the age profile of the withholding tax recoverable was as follows:

	2017 J$'000	2016 J$'000
1-6 months	-	873,115
6-12 months	-	664,482
1-5 years	3,640,602	6,558,198
Over 5 years	1,315,378	20,774
	4,955,980	8,116,569

(d) The Bank and the Government of Jamaica (GOJ) entered into a memorandum of understanding dated December 21, 2013 (amended by supplemental memorandum of understanding dated 28 February 2014) for the settlement of accumulated losses and the recovery of withholding tax refunds due to the Bank.

(i) Under the terms of the agreement, GOJ agreed to settle the accumulated losses due to the Bank as at December 31, 2012 by cash payments of specified amounts commencing in financial year 2014/2015 and ending in financial year 2017/2018. The first payment of $74.37 million was received in December 2014. The remaining three payments, totaling $9,637.49 million remain outstanding as at December 31, 2017.

The Bank and the Ministry of Finance further undertook to agree on settlement dates for subsequent amounts that may be due to the Bank under Section 9(3) of the Bank of Jamaica Act, no later than 90 days after submission of the audited financial statements for the relevant year to the Minister with responsibility for Finance. All prior audited financial statements have been submitted; however, as at December 31, 2017 the required arrangements for settlement of the balances due in relation to the 2013 and 2015 losses have not been agreed.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

10. Due from Government and Government Agencies (continued)

(e) The Bank and the Government of Jamaica (GOJ) entered into a memorandum of understanding dated December 21, 2013 (amended by supplemental memorandum of understanding dated 28 February 2014) for the settlement of accumulated losses and the recovery of withholding tax refunds due to the Bank.

(ii) In respect of withholding taxes refund due as at December 31, 2012 it was agreed that these would be settled in five equal instalments commencing in the financial year 2014/2015. The Government has been honoring this commitment and has made three instalments amounting to $1,966.05 million, of which $655.35 million was made during the financial year ended December 31, 2017.

The agreement also stipulates that all refunds in relation to subsequent withholding taxes will be made on submission of the returns and verification by the Commissioner General, Tax Administration Jamaica. Subsequent to the submission of the required returns a total of $3,730.72 million has been refunded to the Bank out of the total of $7,455.58 million recoverable for the period January 1, 2013 to December 31, 2017.

11. Property, plant and equipment

	Freehold land and buildings J$'000	Leasehold property J$'000	Furniture, plant and equipment J$'000	Motor vehicles J$'000	Total J$'000
Cost or valuation:					
December 31, 2015	3,814,423	80,473	1,995,409	387,460	6,277,765
Additions	39,740	214	85,655	76,482	202,091
Revaluation	68,796	-	-	-	68,796
Disposals/write-offs	-	-	-	(115,223)	(115,223)
December 31, 2016	3,922,959	80,687	2,081,064	348,719	6,433,429
Additions	100,396	2,558	177,144	178,504	458,602
Disposals/write-offs	-	-	-	(99,914)	(99,914)
December 31, 2017	4,023,355	83,245	2,258,208	427,309	6,792,117
Depreciation:					
December 31, 2015	44,527	32,662	1,465,348	150,720	1,693,257
Charge for the year	159,930	8,062	103,803	54,628	326,423
Eliminated on disposals	-	-	-	(68,368)	(68,368)
December 31, 2016	204,457	40,724	1,569,151	136,980	1,951,312
Charge for the year	165,300	7,389	97,756	73,874	344,319
Eliminated on disposals	-	-	-	(64,853)	(64,853)
December 31, 2017	369,757	48,113	1,666,907	146,001	2,230,778
Net book values:					
December 31, 2017	3,653,598	35,132	591,301	281,308	4,561,339
December 31, 2016	3,718,502	39,963	511,913	211,739	4,482,117
December 31, 2015	3,769,896	47,811	530,061	236,740	4,584,508

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

11. Property, plant and equipment (continued)

An independent valuer provides the fair value of the land and buildings when requested by the Bank, which is expected to be every five years (or more frequently if the Bank has compelling reasons to believe the fair value has changed materially in the intervening years) [note 3(c)(i)].

A revaluation was performed in November 2015 and October 2016 by C. D. Alexander Company Realty Limited, Real Estate Broker, Appraiser and Auctioneer.

The Board of the Bank are of the opinion that there have been no identifiable factors to suggest any material change in commercial property values in Kingston, Jamaica between the valuation date and reporting date.

The surplus arising on revaluation, inclusive of depreciation no longer required, is included in property revaluation reserve [note 23(b)].

The valuations were done using the depreciated replacement cost approach, and management accepted these as reasonable estimates of fair value. The fair value of land and buildings is categorised as Level 3 in the fair value hierarchy. The significant unobservable inputs used in determining the fair value and the effect of each of them on the value determined, are summarised below:

Valuation techniques	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Depreciated replacement cost. This model takes into account: Building: (i) An estimate of the full replacement cost at the reporting date (ii) An estimate of depreciation based on the age and condition of the building (iii) Deducting the estimated depreciation from the current replacement cost Land (i) An estimate of the site improvements made (ii) An estimate of the market value of the land with the site improvements	• Estimates of material, labour, professional fees and other costs of planning, design and construction, expressed as cost per square foot • Judgements about the physical condition of the building • Judgements about the environment in which the building is located	The estimated fair value would increase (decrease) if: • the cost per square foot were higher (lower) • judgement about the condition of the building had determined the condition to be better or worse.

12. Intangible asset

	Computer software 2017 $'000	Computer software 2016 $'000
Cost:		
At the beginning of year	877,641	544,254
Additions	28,217	333,387
At end of year	905,858	877,641
Amortisation:		
At the beginning of year	588,216	498,470
Charge for the year	84,004	89,746
At end of year	672,220	588,216
Net book value	233,638	289,425

13. Employee benefits

The Bank operates non-contributory defined benefit pension, medical, and life insurance schemes for all its permanent eligible employees and funds supplemental retirement benefits. Benefits under the pension scheme are computed by reference to final salary. The assets of the scheme, which are held separately from those of the Bank, are under the control of a board of trustees, with day-to-day management by employees of the Bank.

(a) Pension asset recognised:

	2017 $'000	2016 $'000
Present value of funded obligations	(11,072,700)	(10,435,400)
Fair value of plan assets	15,809,300	15,258,600
Recognised asset	4,736,600	4,823,200

(i) Movements in the present value of defined benefit obligations

	2017 J$'000	2016 J$'000
Balance at beginning of year	10,435,400	9,309,900
Benefits paid	(566,200)	(506,400)
Service and interest costs	1,177,400	1,015,500
Remeasurement loss on obligation included in other comprehensive income (iv)	26,100	616,400
Balance at end of year	11,072,700	10,435,400

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

13. Employee benefits (continued)

(a) Pension asset recognised (continued):

(ii) Movements in plan assets

	2017 J$'000	2016 J$'000
Fair value of plan assets at beginning of year	15,258,600	14,345,400
Contributions paid	90,800	94,600
Interest income on plan assets	1,351,900	1,201,900
Benefits paid	(566,200)	(506,400)
Remeasurement (loss)/gain on assets include in other comprehensive income (iv)	(325,800)	123,100
Fair value of plan assets at end of year	15,809,300	15,258,600
Plan assets consist of the following:		
Government of Jamaica securities	13,260,100	13,935,900
Bank of Jamaica certificates of deposit	1,116,900	1,019,200
Real estate	130,800	130,800
Other	1,301,500	172,700
	15,809,300	15,258,600

(iii) Credit recognised in profit or loss

	2017 J$'000	2016 J$'000
Current service costs	241,900	226,400
Interest on obligations	935,500	789,100
Interest income on assets	(1,351,900)	(1,201,900)
	(174,500)	(186,400)

(iv) Items recognised in other comprehensive income

	2017 J$'000	2016 J$'000
Remeasurement loss on obligation:		
Experience adjustment	(26,100)	(616,400)
Remeasurement (loss)/gain on assets	(325,800)	123,100
	(351,900)	(493,300)

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

13. Employee benefits (continued)

(a) Pension asset recognised (continued):

(v) Principal actuarial assumptions at the reporting date (expressed as weighted averages)

	2017	2016
	%	%
Discount rate	8.00	9.00
Future pension increases	2.50	3.00
Future salary increases	5.50	6.50

(vi) A one percentage point change at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by amounts shown below:

Actuarial assumption	One percentage point increase	One percentage point decrease
	J$'000	J$'000
Discount rate	(1,439,200)	1,436,900
Assumed rate of salary escalation	401,800	(354,600)
Future rate of pension	1,370,400	(1,380,300)

(b) Obligations for post-retirement life insurance and medical benefits:

(i) Liability recognised in statement of financial position

	2017	2016
	J$'000	J$'000
Balance at beginning of year	1,698,800	1,520,100
Interest cost	156,700	132,500
Current service cost	58,600	51,800
Benefits paid	(32,100)	(26,700)
Past service cost	36,900	-
Remeasurement loss on obligation, included in other comprehensive income [see (iii)]	408,900	21,100
Balance at end of year	2,327,800	1,698,800

(ii) Expense recognised in profit or loss:

	2017	2016
	J$'000	J$'000
Current service costs	58,600	51,800
Interest on obligations	156,700	132,500
Past service cost	36,900	-
	252,200	184,300

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

13. Employee benefits (continued)

(b) Obligations for post-retirement life insurance and medical benefits (continued):

(iii) Items in other comprehensive income

	2017 J$'000	2016 J$'000
Change in financial assumptions	(800)	(155,100)
Experience adjustment	(408,100)	134,000
Remeasurement loss on obligation	(408,900)	(21,100)

(iv) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2017 %	2016 %
Discount rate	8.00	9.00
Future salary increase	5.50	6.50
Medical claims growth	7.00	8.00

Assumptions regarding future mortality are based on the GAM 94 [2016: GAM (94)] mortality table for pensioners (British mortality tables), but with each age rated down by five (2016: five) years.

(c) At the reporting date, changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by amounts shown below:

	One percentage point increase J$'000	One percentage point decrease J$'000
Assumed medical cost trend rate and rate of salary escalation	483,700	(370,800)
Discount rate	(372,900)	486,300

(d) The estimated pension contributions expected to be paid into the plan during the next financial year amounts to J$110,200,000 (2016: J$110,200,000). See note 13(a)(ii) for actual contributions paid during the current and previous years.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

14. Other assets

	2017 J$'000	2016 J$'000
Staff loans	1,821,357	1,780,840
Inventory of unissued notes and coins	1,062,148	1,130,443
Ex-staff loans	78,913	80,996
SDR equalisation provision [note 16(d)(iii)]	-	946,817
Accrued interest receivable other than on GOJ securities	630,087	103,045
Salaries and wages paid in advance	5,522	74,989
Stock of souvenir coins	83,750	84,057
Payment on capital accounts	268,086	147,478
Other	52,033	28,927
	4,001,896	4,377,592
Less:		
Remeasurement of staff loans	(576,915)	(602,043)
Impairment allowance - ex-staff loans	(11,605)	(11,605)
	3,413,376	3,763,944

15. Notes and coins in circulation

	2017 J$'000	2016 J$'000
Notes	106,778,683	94,368,310
Coins	4,132,010	3,835,173
	110,910,693	98,203,483

Section 21 of the Act requires the Bank to hold specified assets of an amount in value sufficient to cover the value of the total amount of notes and coins in circulation as defined in that section. The assets held shall include, *inter alia*, (a) gold; (b) "hard currency" cash, bank balances or securities issued by a foreign government or international financial institution of which Jamaica is a member; or (c) Special Drawing Rights. Specified assets held by the Bank, as at December 31, 2017, were 4.17 (2016: 3.91) times the value of notes and coins in circulation at that date.

Coins in circulation are shown net of a reserve of 25% of the gross amount of coins in circulation (note 22).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

16. Deposits and other demand liabilities

(a) Deposits and other demand liabilities comprise the following:

	2017 J$'000	2016 J$'000
Government and Government agencies	104,597,978	88,511,495
Commercial banks and specified financial institutions	126,061,563	99,870,324
International Monetary Fund [see (d) below]	71,079,062	71,413,029
Others	4,881,180	4,540,968
	306,619,783	264,335,816
Jamaica dollar equivalent of foreign currency deposits	223,453,562	197,108,241
Jamaica dollar deposits	83,166,221	67,227,575
	306,619,783	264,335,816

(b) Deposit and other demand liabilities include the reserve deposits prescribed by Section 28 of the Bank of Jamaica Act. Reserve deposits at the reporting date were $125,255,305,000 (2016: $86,699,291,000).

(c) Under Section 28A of the Bank of Jamaica Act, commercial banks and specified financial institutions may be required to make special deposits with the Bank in the form of cash or specified securities. There were no special deposits at the reporting date.

(d) IMF related information

(i) The IMF balance consists of the following loans:

	2017 SDR'000	2016 SDR'000	2017 J$'000	2016 J$'000
2013 Extended fund facility	402,268	408,830	70,949,653	71,285,095
Other IMF amounts	734	734	129,409	127,934
Total IMF liability	403,002	409,564	71,079,062	71,413,029

(ii) In November 2016, the Government of Jamaica discontinued the 2013 extended fund facility that would have expired in March 2017; and replaced it with a three-year precautionary standby agreement. There were no drawdown under this facility as at December 31, 2017.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

16. Deposits and other demand liabilities (continued)

(d) IMF related information (continued)

(iii) The following reconciliation shows the total IMF liability converted at the SDR to J$ exchange rates prevailing at April 30 and December 31

	2017 J$'000	2016 J$'000
At the December 31 SDR rate:		
Amount at which the loan is carried by the Bank	71,497,219	70,466,212
Effect of exchange rate depreciation between April 30 and December 31 (notes19,14)	(418,157)	946,817
At the April 30 SDR rate:		
Amount at which the loan is carried by the IMF [per (a) above]	71,079,062	71,413,029

(iv) The following table shows the rate of exchange of J$1 for SDR at April 30 and December 31

		2017 SDR	2016 SDR
April 30	J$1 =	0.0056698	0.0057351
December 31	J$1 =	0.0056366	0.0058122

As at February 28, 2017, the date of approval of these financial statements, the exchange rate was J$1 = SDR 0.0054431.

(v) There was no disbursement to Government for fiscal support during 2017.

17. Open market liabilities

As part of the process of controlling liquidity in the financial system, the Bank acquires funds from or makes funds available to financial institutions. One mechanism for doing this is entering into short-term agreements with the institutions. In the case of funds acquired, receipt of funds is evidenced by the Bank issuing Certificates of Deposit to the depositor.

18. International Monetary Fund - Allocation of Special Drawing Rights

This represents the Bank's obligation for Special Drawing Rights (SDRs) allocated to it. This allocation does not change unless there are cancellations or further allocations.

	SDR '000	2017 J$'000	2016 J$'000
At beginning of year	261,644	45,016,212	43,499,182
Effect of exchange rate fluctuation	-	1,402,489	1,517,030
At end of year	261,644	46,418,701	45,016,212

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

19. Other liabilities

	2017 J$'000	2016 J$'000
Interest payable	1,611,657	1,947,383
SDR equalisation provision [note 16(d)(iii)]	418,157	-
Staff and staff-related expenses	252,723	221,669
Other	106,031	101,510
	2,388,568	2,270,562

20. Share capital

Section 8 of the Act provides for the capital of the Bank to be J$4,000,000, which has been paid by the Government of Jamaica.

21. General reserve fund

Section 9 of the Act provides that the Bank shall establish and maintain a General Reserve Fund:

(a) to which, at the end of each financial year, the net income for that year shall be transferred or the net losses charged;

(b) from which shall be paid to the Consolidated Fund the amount by which, at the end of the financial year, the balance thereon exceeds five times the Bank's authorised share capital;

(c) into which should be paid from the Consolidated Fund at the end of the financial year, the amount by which the Bank's net loss exceeds the balance in the General Reserve Fund.

22. Special stabilisation account

The special stabilisation account is maintained at 25% of the gross amount of coins in circulation as a reserve against coins that are unlikely to be redeemed (note 15).

23. Other reserves

This represents the following:

	2017 J$'000	2016 J$'000
Securities revaluation reserve [see (a)]	1,878,749	115,917
Property revaluation reserve [see (b)]	3,692,536	3,692,536
Pension equalisation reserve [see (c)]	4,736,600	4,823,200
Employee benefit obligation reserve [see (c)]	(887,300)	(710,234)
	9,420,585	7,921,419

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

23. Other reserves (continued)

(a) This represents the net unrealised gains and losses on the revaluation of available-for-sale investments securities.

(b) The property revaluation reserve represents the surplus arising on the revaluation of certain freehold properties (see note 11).

(c) The pension equalisation and employee benefit obligation reserves represent the pension surplus and employee benefit obligation arising on the actuarial valuation, under IAS 19, of the Bank's pension scheme and medical benefits. Annual changes in the value of the plan are shown in the statement of comprehensive income, then transferred to this reserve.

24. Interest income

(a) Interest income comprises:

	2017 J$'000	2016 J$'000
Loans and receivables:		
Cash and cash equivalents	1,186,576	677,562
Investment securities	2,407,277	558,621
Resale agreements	374,448	1,046,309
Other	229,759	128,525
Available-for-sale:		
Investment securities	3,590,306	2,910,699
Funds managed by agents	252,758	180,108
Held to maturity:		
Investment securities	9,103,455	8,928,817
	17,144,579	14,430,641

(b) Analysed as follows:

	2017	2016
Government of Jamaica (note 29)	12,430,367	11,762,569
Other sources	1,932,487	1,063,142
Open market	374,448	1,046,309
International	2,407,277	558,621
	17,144,579	14,430,641

25. Foreign exchange (loss)/gain, net

	2017 J$'000	2016 J$'000
Net (losses)/gains on translation and settlement of foreign currency assets and liabilities, other than on IMF deposit liabilities	(5,871,817)	7,096,798
Losses on translation and settlement of IMF deposit liabilities	(2,478,672)	(1,635,618)
Realised exchange gains on purchases and sales of foreign currencies	603,578	123,891
	(7,746,911)	5,585,071

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

26. Interest on deposits and open market liabilities

	2017 J$'000	2016 J$'000
Certificates of deposit - Open market liabilities	7,321,015	8,242,107
Deposits:		
- Government and Government agencies (note 29)	1,300,015	886,094
- Commercial banks and specified financial institutions	958,276	660,432
- Other	88,479	76,660
	9,667,785	9,865,293

27. Staff numbers and costs

	2017	2016
Number of employees at the end of the year		
Full-time	445	467
Contract	140	114

The related costs for these employees were as follows:

	2017 J$'000	2016 J$'000
Salaries and wages	2,186,938	2,205,591
Statutory payroll contributions	142,136	146,742
Uniforms	23,028	-
Staff development	73,851	49,657
Subsidy on canteen operations	84,926	82,937
Staff welfare	318,364	308,399
Pension fund related costs	101,100	95,516
	2,930,343	2,888,842

28. Other operating expenses

	2017 J$'000	2016 J$'000
Communication	41,359	38,111
Travelling and motor vehicle expenses	85,023	80,173
Commission paid to commercial banks	449,128	409,458
Auditor's remuneration	14,038	13,370
General office expenses	86,222	87,052
Management fees on RAMP portfolio	51,591	62,706
Other administrative expenses	268,485	274,736
	995,846	965,606

29. Related parties

(a) Definition of related party

A related party is a person or entity that is related to the Bank:

(i) A person or a close member of that person's family is related to the Bank if that person:

(1) has control or joint control over the Bank;

(2) has significant influence over the Bank; or

(3) is a member of the key management personnel of the Bank

(ii) An entity is related to the Bank if any of the following conditions applies:

(1) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(3) The entity is controlled, or jointly controlled, by a person identified in (i).

(4) A person identified in (i)(1) has significant influence over the Bank or is a member of the key management personnel of the Bank.

(5) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank.

A related party transaction is a transfer of resources, services or obligations between the Bank and a related party, regardless of whether or not a price is charged.

(b) Identity of related parties

The Bank has related party relationships with its Board of Directors, the members of the Executive management, the Bank of Jamaica Pension Scheme and the Government of Jamaica and its agencies (see notes 10 and 16).

(c) Related party amounts

(i) The statement of financial position includes balances, arising in the ordinary course of business, with related parties, other than those disclosed at note 10 and 16 as follows:

	2017 J$'000	2016 J$'000
Loans:		
Executive management (included in staff loans, note 14)	41,257	53,440
Open market liabilities: Pension fund	1,116,899	1,019,244

The executive management team consists of twelve (12) persons.

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

29. Related parties (continued)

(c) Related party amounts (continued)

(i) (Continued)

The interest rates applicable on loans to executive management range from 1% - 3%. In addition, a deemed taxable income is computed on the interest benefit of the concessionary interest rate. No non-executive director receives emoluments or is in receipt of a loan from the Bank.

(ii) The statement of profit or loss and other comprehensive income includes income earned from/expenses incurred in transactions with related parties, in the ordinary course of business, as follows:

	2017 J$'000	2016 J$'000
Interest expense:		
Government and Government agencies (note 26)	1,300,015	886,094
Pension scheme	80,825	100,066
Executive management and pension scheme (current accounts)	4,719	3,000
Interest income:		
Government of Jamaica [note 24(b)]	12,430,367	11,762,569
Executive management	1,493	1,584
Pension contribution and other benefits	134,405	122,216

Executive management compensation is as follows:

	2017 J$'000	2016 J$'000
Emoluments, included in staff costs (note 27)	170,823	193,455

30. Commitments

(a) Capital commitments as follows:

	2017 J$'000	2016 J$'000
Authorised and contracted	145,356	152,728
Authorised but not contracted	10,427	105,847
	155,783	258,575

30. Commitments (continued)

(b) Operating lease commitments, payable as follows:

	2017 J$'000	2016 J$'000
Within one year	11,655	11,655
Within 1-5 years	43,897	43,897
Over 5 years	43,897	52,676
	99,449	108,228

31. Contingent liabilities

At the reporting date, the Bank was a defendant in various relatively minor suits claiming damages. The Bank is of the view that the claims are generally without merit or will not result in any significant losses to the Bank.

32. Fair value of financial instruments

The Bank's accounting policies on measurement and disclosure require the measurement of fair values for financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value of an asset or liability, where a quoted market price is available, fair value is computed by the Bank using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data; the Bank uses observable data as far as possible. Fair values are categorised into different levels in a three-level fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable.

The different levels in the hierarchy have been defined as follows:

Level 1: Financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

32. Fair value of financial instruments (continued)

Level 3: Financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The table below analyses financial instruments measured at fair value and those not measured at fair value but for which fair value has been disclosed.

The fair value of the amount due from Government and Government Agencies has not been estimated, as there is no practical means of estimating its fair value.

The fair value of certain short-term financial instruments was determined to approximate their carrying value and are not disclosed in the table below:

(a) Securities measured at fair value

	2017		
	Level 1	Level 2	Total
	J$'000	J$'000	J$'000
Available-for-sale financial assets:			
USD Bonds issued primarily by specialised financial corporations	38,144,960	-	38,144,960
Government of Jamaica securities	-	48,897,447	48,897,447
Securities included in funds managed by agents			
- Sovereign bonds	-	41,207,912	41,207,912
- Corporate bonds	-	2,307,342	2,307,342
	38,144,960	92,412,701	130,557,661

	2016		
	Level 1	Level 2	Total
	J$'000	J$'000	J$'000
Available-for-sale financial assets:			
USD Bonds issued primarily by specialised financial corporations	4,221,497	-	4,221,497
Government of Jamaica securities	-	46,667,572	46,667,572
Securities included in funds managed by agents			
- Sovereign bonds	-	37,176,406	37,176,406
- Corporate bonds	-	5,753,732	5,753,732
	4,221,497	89,597,710	93,819,207

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

32. Fair value of financial instruments (continued)

(b) Securities not carried at fair value

	Carrying value 2017	Fair value 2017 Level 2
	J$'000	J$'000
Held-to-maturity financial assets:		
Government of Jamaica securities (FRANs)	79,370,455	108,109,588

	Carrying value 2016	Fair value 2016 Level 2
	J$'000	J$'000
Held-to-maturity financial assets:		
Government of Jamaica securities (FRANs)	78,055,527	88,925,415

(c) Valuation techniques for investment securities classified as Level 2.

The following table shows the valuation techniques used in measuring the fair value classified in the Level 2 hierarchy.

Type of security	Valuation techniques

GOJ J$ securities	• Obtain bid yield from yield curve provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids)
	  • Using the yield, determine price
	  • Apply price to estimate fair value
	• In the prior year:
	  • The yield was adjusted based on internal policy, by an amount which depends on the term to maturity or to the next re-pricing date*
	  • Using the adjusted yield, determine price using standard approach
	  • Apply modified price to estimate fair value
	  • This approach was not used in the current year.

Interest in funds managed by agent	• Estimated using bid prices published by major overseas broker.

* The adjusted yields fall in the ranges set out below:

	2017	2016
Government of Jamaica local securities:		
Variable rate benchmark investments	-	5.93 – 6.00
Fixed rate benchmark investments	-	9.65 – 11.13

33. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. It has established four committees for this purpose:

(i) Investment Committee, which is responsible for providing oversight on the conversion of investment strategy into performance, portfolio construction and risk modelling for the Bank's Foreign Reserves;

(ii) Credit Committee, which is responsible for evaluating and approving applications for staff loans.

(iii) Risk Management Committee (RMC), which is responsible for assisting the Management Committee in its oversight and management of key risks, including strategic, reputational, financial and operational risks, in relation to the Bank's operations. The RMC oversees the establishment of guidelines, policies and processes for monitoring and mitigating risks, while promoting the development and administration of the corporate risk management framework.

The above-listed three committees report to the Committee of Administration, which, in turn, reports to the Management Committee on a weekly basis. The Management Committee reports on a monthly basis to the Board of Directors;

(iv) Audit Committee – which is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit Department. This department undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Board of Directors and the Audit Committee.

The nature of the risks and manner in which they are measured and managed are as set out below.

(b) Credit risk

Credit risk is the risk of loss arising from a counter-party to a financial contract failing to discharge its obligations. This risk arises primarily from the Bank's foreign and local currency investment securities, resale agreements, cash and cash equivalents, interest in funds managed by agents, due from Government and Government Agencies and other assets.

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

33. Financial risk management (continued)

(b) Credit risk (continued)

(i) Management of credit risk on classes of financial assets exposed to that risk:

- Foreign currency investments including interest in funds managed by agents

  Credit risk on the foreign currency investment portfolio is managed by restricting the holdings of investments substantially to USD Bonds issued primarily by specialised financial corporations, other highly rated sovereign securities, Jamaica Government USD securities and placements in highly rated supranational institutions. The Bank uses the credit ratings ascribed by Moody's Investor Services and Standard & Poors Financial Services LLC and Fitch as its main criteria for assessing the creditworthiness of financial institutions and sovereigns. The Bank's foreign investments are restricted to money market placements with financial institutions with minimum short-term credit ratings of A-2/P-2/F2 and with minimum long-term ratings of A+/A1/A+ of any two of the three rating institutions. Additionally, capital market issues must have a minimum credit rating of A+/A1/A+. In order to reduce consolidated credit risk exposure, the Bank has investment limits in place. The Bank's foreign investment portfolio consists of short-, medium- and long-term investments, each of which has stipulated percentage limits (upper and lower) of the portfolio at market value.

- Local investment securities

  Credit risk for local securities is managed by investing only in Government of Jamaica securities. Management does not expect this counterparty to fail to meet its obligations.

- Resale agreements

  Credit risk is managed by requiring institutions to deposit with the Bank or its agents, designated securities sufficient to collateralise the amounts advanced under the resale agreements. The minimum collateral value of securities accepted is set at defined percentage of market value.

- Cash and cash equivalents

  Cash and cash equivalents are held in financial institutions which management regards as strong. The strength of these financial institutions is continually reviewed by the Investment Committee. In addition, there are procedures in place to manage potential concentration.

- Due from Government and Government Agencies.

  These amounts are in respect of accrued interest, withholding taxes and losses recoverable from the Government of Jamaica. Management does not expect this counterparty to fail to meet its obligations.

33. Financial risk management (continued)

(b) Credit risk (continued)

(i) Management of credit risk on classes of financial assets exposed to that risk (continued):

- Other assets

  Other credit exposures consist mainly of staff loans for housing and motor vehicles. There is a documented credit policy in place which guides the Bank's credit process for staff loans. The policy includes established procedures for the authorisation of credit. Staff loans are limited to a percentage of the value of the assets being purchased. Mortgages and liens are obtained for staff housing and motor vehicle loans, respectively, which must also be insured.

(ii) Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan or securities agreements.

(iii) Past due but not impaired loans and securities

These are loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security available or the stage of collection of amounts owed to the Bank.

(iv) Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring. The Bank had no such loans as at December 31, 2017 and 2016.

(v) Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The allowance is the aggregate of the estimated losses on individual exposures.

(vi) Write-off policy

The Bank writes off a loan or security balance (and any related allowances for impairment losses) when the Bank determines that the loan or security is uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

33. Financial risk management (continued)

(b) Credit risk (continued)

(vii) Exposure to credit risk

Current credit exposure is the amount of loss that the Bank would suffer if all counterparties to which the Bank was exposed were to default at once; this is represented substantially by the carrying amount of financial assets shown on the statement of financial position.

Exposures to credit risk attached to financial assets are monitored through credit rating and lending limits, which are regularly reviewed. In addition, securities issued or guaranteed by the Government of Jamaica are required to collateralise advances to financial institutions.

There has been no change to the nature of the Bank's exposure to credit risk or the manner in which it measures and manages the risk.

The Bank's significant concentrations of credit exposure by geographical region (based on the region of ownership of the entity that issued the security or holds the cash or cash equivalents) are as follows:

	2017 J$'000	2016 J$'000
Caribbean	172,672,523	150,023,456
North America	471,243,065	348,675,394
Europe	1,309,914	70,310,557
Other	173,108	273,526
Total financial assets	645,398,610	569,282,933

(c) Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial liabilities as they fall due. Prudent liquidity management requires maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed standby credit facilities to meet commitments.

The Bank's exposure to liquidity risk to meet foreign liabilities, as an institution, is limited due to the minimal amount owed to overseas creditors/lenders. Management of liquidity risk relates primarily to the availability of liquid foreign resources to sell to the Government of Jamaica and its agencies to repay their suppliers and lenders. The Bank manages this risk through a combination of:

- Budgetary procedures to identify the timing of foreign payments by Government of Jamaica.
- Scheduling the maturity of foreign deposits to coincide with the demands of Government and its Agencies.
- Maintaining a portion of its foreign assets in cash or near cash as precautionary funds to meet unforeseen demands.

The Bank, like all central banks, has no real liquidity risk in relation to its domestic financial obligations. The Bank is not subject to any imposed liquidity limit.

33. Financial risk management (continued)

(c) Liquidity risk (continued)

There were no changes to the nature of the Bank's exposure to liquidity risk or the manner in which it measures and manages it.

The following table presents the undiscounted contractual maturities of financial liabilities:

	2017					
	Within 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Contractual cash flow	Carrying amount
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
Deposits and other demand liabilities	306,621,254	-	-	-	306,621,254	306,619,783
Open market liabilities	67,829,562	6,647,500	42,991,105	73,270,435	190,738,602	177,136,165
Foreign liabilities	2,206	-	-	-	2,206	2,206
Other	2,388,568	-	-	-	2,388,568	2,388,568
Commitments	9,052	35,017	95,810	71,456	211,335	-
	376,850,642	6,682,517	43,086,915	73,341,891	499,961,965	486,146,722

	2016					
	Within 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Contractual cash flow	Carrying amount
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
Deposits and other demand liabilities	251,832,347	7,125,260	5,712,833	-	264,670,440	264,335,816
Open market liabilities	41,273,389	23,090,010	45,317,785	99,560,018	209,241,202	192,854,641
Foreign liabilities	319	-	-	-	319	319
Other	2,270,562	-	-	-	2,270,562	2,270,562
Commitments	972	88,068	104,557	120,530	314,127	-
	295,377,589	30,303,338	51,135,175	99,680,548	476,496,650	459,461,338

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on financial assets. Market risk exposures are measured using sensitivity analysis.

There was no change during the year in the Bank's exposure to market risk or the manner in which it measures and manages the risk.

(i) Currency risk

Currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The Bank is exposed to foreign currency risk due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaica dollar. At the reporting date, the Bank's net exposure to foreign exchange rate fluctuations, in Jamaica dollar equivalent, was as follows, based on currencies in which reported amounts are denominated:

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

33. Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

	2017				
	USD $'000	EUR $'000	GBP $'000	Other $'000	Total $'000
Foreign currency assets:					
Notes and coins - for local sale	10,075	1,647	3,207	549	15,478
- for repatriation	65,898	8,637	12,883	133,254	220,672
Cash and cash equivalents	84,345,983	537,691	321,770	489,790	85,695,234
Interest in funds managed by agents	43,515,254	-	-	-	43,515,254
Interest receivable on BHAs	542,565	-	-	78,312	620,877
Investment securities	304,556,020	-	-	-	304,556,020
IMF- Holding of special drawing rights	-	-	-	29,020,355	29,020,355
IMF - Quota subscription	-	-	-	10,374,162	10,374,162
	433,035,795	547,975	337,860	40,096,422	474,018,052
Foreign currency liabilities:					
Open market liabilities	88,924,414	-	-	-	88,924,414
Deposits - current accounts	145,262,827	82,736	5,515,868	1,513,069	152,374,500
Deposits - IMF	-	-	-	71,079,062	71,079,062
IMF - Allocation of special drawing rights	-	-	-	46,418,701	46,418,701
Foreign liabilities	2,206	-	-	-	2,206
Bilateral accounts	-	-	-	43,867	43,867
Interest payable	1,125,862	241	-	244,912	1,371,015
	235,315,309	82,977	5,515,868	119,299,611	360,213,765
Net foreign currency assets/ (liabilities)	197,720,486	464,998	(5,178,008)	(79,203,189)	113,804,287

	2016				
	USD $'000	EUR $'000	GBP $'000	Other $'000	Total $'000
Foreign currency assets:					
Notes and coins - for local sale	4,830	6,529	3,924	2,459	17,742
- for repatriation	18,893	4,657	4,970	43,112	71,632
Cash and cash equivalents	263,681,093	334,397	629,746	897,095	265,542,331
Interest in funds managed by agents	42,930,138	-	-	-	42,930,138
Interest receivable on BHAs	40,986	-	-	15,055	56,041
Investment securities	73,542,419	-	-	-	73,542,419
IMF- Holding of special drawing rights	-	-	-	29,929,849	29,929,849
Bilateral accounts	-	-	-	20,056	20,056
IMF - Quota subscription	-	-	-	10,060,734	10,060,734
	380,218,359	345,583	638,640	40,968,360	422,170,942
Foreign currency liabilities:					
Open market liabilities	119,473,042	-	-	-	119,473,042
Deposits - current accounts	106,453,482	48,473	2,504,452	761,689	109,768,096
Deposits - IMF	-	-	-	71,413,029	71,413,029
IMF - Allocation of special drawing rights	-	-	-	45,016,212	45,016,212
Foreign liabilities	319	-	-	-	319
Interest payable	1,427,143	-	112,186	160,627	1,699,956
	227,353,986	48,473	2,616,638	117,351,557	347,370,654
Net foreign currency assets/ (liabilities)	152,864,373	297,110	(1,977,998)	(76,383,197)	74,800,288

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

33. Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

Exchange rates at December 31:

	2017	2016
USD1 to JMD	124.58	127.98
GBP1 to JMD	168.52	158.14
CDN1 to JMD	99.43	95.43
EUR1 to JMD	149.59	134.99

At February 28, 2017, the date of approval of these financial statements, the exchange rates were US1 to J$127.0637, UK1 to J$175.0748, CDN1 to J$99.1640 and EUR1 to J$154.9733.

The exchange rate for SDR to J$ is shown in note 16(d)(iv).

Sensitivity to exchange rate movements

A 4 percent (2016: 6 percent) devaluation of the Jamaica Dollar against currencies which expose the Bank to risk at December 31 would have decreased loss by $4,569,770,000 (2016: increase profit by $9,107,860,000) while a 2 percent (2016: 1 percent) revaluation would have increased loss by $2,284,885,000 (2016: decrease profit by $1,489,211,000). The analysis assumes that all other variables, in particular, interest rates, remain constant, and has been performed on the same basis as for 2016.

(ii) Interest rate risk:

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustments within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values. The Bank manages this risk by monitoring interest rates daily and ensuring that, even though there is no formally predetermined gap limits, to the extent practicable, the maturity profile of its financial assets is, at least, matched by that of its financial liabilities.

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Notes to the Financial Statements (Continued)
Year ended December 31, 2017

33. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk:

The following table summarises the carrying amounts of financial assets and liabilities to arrive at the Bank's interest rate gap based on the earlier of contractual re-pricing and maturity dates.

	2017						
	Within 3 months	Three to 12 months	Over 12 months	Payable after notice	Non-rate sensitive	Total	Weighted average interest
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000	%
Assets							
Notes and coins	-	-	-	-	325,533	325,533	-
Cash and cash equivalents	-	-	-	-	85,695,234	85,695,234	-
Interest in funds managed by agents	-	-	-	43,515,254	-	43,515,254	1.07
Foreign currency denominated investments	266,411,061	-	38,144,959	-	-	304,556,020	1.36
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	29,020,355	29,020,355	-
Resale agreements	350,000	-	-	-	-	350,000	4.61
Local currency denominated investments	-	-	128,267,902	-	-	128,267,902	8.66
International Monetary Fund – Quota Subscription	-	-	-	-	10,374,162	10,374,162	-
Due from Government and Government Agencies	-	-	-	-	41,620,292	41,620,292	-
Other assets	-	-	-	-	1,999,392	1,999,392	-
Total financial assets	266,761,061	-	166,412,861	43,515,254	169,034,968	645,724,144	
Liabilities							
Notes and coins in circulation	-	-	-	-	110,910,693	110,910,693	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	159,506,140	-	-	63,947,422	-	223,453,562	0.15
Jamaica dollar deposits	20,804,646	-	-	62,361,575	-	83,166,221	0.74
Open market liabilities	73,181,199	39,466,540	64,488,426	-	-	177,136,165	6.30
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	46,418,701	46,418,701	-
Foreign liabilities	-	-	-	-	2,206	2,206	-
Bilateral accounts	-	-	-	-	43,867	43,867	-
Other liabilities	-	-	-	-	2,388,568	2,388,568	-
Total financial liabilities	253,491,985	39,466,540	64,488,426	126,308,997	159,764,035	643,519,983	
Total interest rate sensitivity gap	13,269,076	(39,466,540)	101,924,435	(82,793,743)	9,270,933	2,204,161	
Cumulative gap	13,269,076	(26,197,464)	75,726,971	(7,066,772)	2,204,161	-	

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

33. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued):

	2016						
	Within 3 months	Three to 12 months	Over 12 months	Payable after notice	Non-rate sensitive	Total	Weighted average interest
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000	%
Assets							
Notes and coins	-	-	-	-	164,224	164,224	-
Cash and cash equivalents	-	-	-	-	265,542,331	265,542,331	-
Interest in funds managed by agents	-	-	-	42,930,138	-	42,930,138	1.19
Foreign currency denominated investments	69,320,922	-	4,221,497	-	-	73,542,419	2.18
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	29,929,849	29,929,849	-
Resale agreements	16,550,000	-	-	-	-	16,550,000	6.81
Local currency denominated investments	-	-	124,723,099	-	-	124,723,099	8.81
International Monetary Fund – Quota Subscription	-	-	-	-	10,060,734	10,060,734	-
Due from Government and Government Agencies	-	-	-	-	36,782,107	36,782,107	-
Bilateral accounts	-	-	-	-	20,056	20,056	-
Other assets	-	-	-	-	3,764,417	3,764,417	-
Total financial assets	85,870,922	-	128,944,596	42,930,138	346,263,718	604,009,374	
Liabilities							
Notes and coins in circulation	-	-	-	-	98,203,483	98,203,483	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	154,691,519	-	-	42,416,722	-	197,108,241	0.01
Jamaica dollar deposits	21,746,440	-	-	45,481,135	-	67,227,575	1.22
Open market liabilities	61,913,292	41,860,909	89,080,440	-	-	192,854,641	4.54
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	45,016,212	45,016,212	-
Foreign liabilities	-	-	-	-	319	319	-
Bilateral accounts	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	2,271,036	2,271,036	-
Total financial liabilities	238,351,251	41,860,909	89,080,440	87,897,857	145,491,050	602,681,507	-
Total interest rate sensitivity gap	(152,480,329)	(41,860,909)	39,864,156	(44,967,719)	200,772,668	1,327,867	-
Cumulative gap	(152,480,329)	(194,341,238)	(154,477,082)	(199,444,801)	1,327,867	-	-

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2017

33. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued):

Sensitivity to interest rate movement

An increase of 100 (2016: 100) basis points and a decrease of 100 (2016:150) basis points in interest rates for Jamaica dollar financial instruments and an increase of 50 (2016: 100), and a decrease of 50 (2016: 50) basis points for United States dollar financial instruments would have increased or decreased profit and reserve by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2016.

	Increase		Decrease	
	Effect on profit/loss	Effect on reserves	Effect on profit/loss	Effect on reserves
	J$'000	J$'000	J$'000	J$'000
	2017			
Fixed rate financial instruments	-	(1,374,416)	-	1,532,296
Variable rate financial instruments	347,164	(31,392)	(347,164)	31,009
	347,164	(1,405,808)	(347,164)	1,563,305
	2016			
Fixed rate financial instruments	-	2,518,802	-	(702,603)
Variable rate financial instruments	347,144	(31,121)	(347,144)	31,187
	347,144	2,487,681	(347,144)	(671,416)

(e) Capital management

The Bank's capital consists of share capital, general reserve fund, special stabilisation account, securities revaluation reserve, property revaluation reserve and pension equalisation reserve. The share capital of the Bank may be increased by resolution of the Board of Directors; however, such a resolution would have to be approved by the House of Representatives of Jamaica. The Bank's annual profit is transferred to the general reserve fund. Whenever the credit in the reserve fund exceeds five times the authorised share capital such excess profit is paid to the Consolidated Fund. The Bank has been complying with this requirement. There were no changes in the Bank's approach to capital management during the year.

A

APPENDIX

Inflation Outturn

Table 1: Inflation Outturn for 2017 Relative to 2016

	Weight in CPI Basket	2017 Per cent Inflation	2017 %Wgt Inflation	2017 %Share Inflation	2016 Per cent Inflation	YOY %pt Chg Inflation
1 FOOD & NON-ALCOHOLIC BEVERAGES	37.5	6.7	0.0	2.6	0.1	6.5
1.1 **Food**	35.1	6.9	0.0	-0.3	0.0	6.9
Bread and Cereals	6.1	2.8	0.1	6.7	1.9	0.9
Meat	7.7	3.3	0.2	11.9	2.7	0.6
Fish and Seafood	5.3	3.8	0.1	6.6	2.1	1.7
Milk, Cheese and Eggs	3.1	1.4	0.0	2.4	1.3	0.1
Oils and Fats	1.6	3.1	0.0	1.8	1.8	1.3
Fruit	1.1	7.3	0.1	3.8	5.7	1.6
Vegetables and Starchy Foods	6.9	16.9	-0.5	26.7	-6.7	23.7
Vegetables	4.6	19.1	-0.4	21.2	-7.9	27.0
Starchy Foods	2.2	10.6	-0.1	-3.8	-2.9	13.5
Sugar, Jam, Honey, Chocolate and Confectionery	1.7	5.6	0.1	4.6	4.6	1.0
Food Products n.e.c.	1.6	5.1	0.1	2.9	3.2	1.9
1.2 **Non-Alcoholic Beverages**	2.4	2.1	0.1	3.6	2.6	-0.5
Coffee, Tea and Cocoa	0.7	2.7	0.0	1.1	2.7	0.0
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	1.7	1.8	0.0	2.5	2.6	-0.8
2 ALCOHOLIC BEVERAGES & TOBACCO	1.4	5.5	0.0	2.3	2.8	2.7
3 CLOTHING & FOOTWEAR	3.3	2.3	0.1	3.1	1.6	0.7
3.1 Clothing	2.1	1.6	0.0	1.9	1.6	0.1
3.2 Footwear	1.2	3.3	0.0	1.2	1.7	1.6
4 HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS	12.8	8.6	0.9	51.3	6.9	1.6
4.1 Rentals for Housing	3.5	2.7	0.0	0.9	0.5	2.3
4.3 Maintenance and Repair of Dwelling	0.8	3.7	0.0	1.8	3.8	-0.1
4.4 Water Supply and Miscellaneous Services Related to the Dwelling	1.3	4.5	0.1	5.1	6.6	-2.1
4.5 Electricity, Gas and Other Fuels	7.1	13.3	0.8	46.1	11.2	2.1
5 FURNISHINGS, HOUSEHOLD EQUIPMENT & ROUTINE HOUSEHOLD MAINTENANCE	4.9	1.7	0.2	12.0	4.2	-2.5
5.1 Furniture and Furnishings (inc. Floor Coverings)	0.7	2.2	0.0	0.9	2.2	-0.1
5.2 Household Textiles	0.3	2.8	0.0	0.3	1.3	1.5
5.3 Household Appliances	0.6	2.5	0.0	1.2	3.8	-1.3
5.4 Glassware, Tableware and Household Utensils	0.1	1.4	0.0	0.1	2.0	-0.6
5.5 Tools and Equipment for House and Garden	0.2	2.0	0.0	0.1	1.6	0.5
5.6 Goods and Services for Routine Household Maintenance	3.2	1.3	0.2	9.4	5.1	-3.8
6 HEALTH	3.3	1.4	0.1	3.8	2.0	-0.5
6.1 Medical Products, Appliances and Equipment	1.2	1.7	0.0	1.7	2.3	-0.6
6.2 Health Services	2.1	1.2	0.0	2.1	1.7	-0.5
7 TRANSPORT	12.8	3.5	0.2	9.7	1.3	2.2
8 COMMUNICATION	4.0	0.2	0.0	0.0	0.0	0.2
9 RECREATION & CULTURE	3.4	2.9	0.1	4.8	2.5	0.5
10 EDUCATION	2.1	2.1	0.1	5.3	4.2	-2.1
11 RESTAURANTS & ACCOMMODATION SERVICES	6.2	2.7	0.1	4.6	1.3	1.5
12 MISCELLANEOUS GOODS & SERVICES	8.4	2.1	0.2	12.6	2.6	-0.5
ALL DIVISIONS	100	5.2	1.7	100.0	1.7	3.5

Table 2: Regional Inflation and Per cent YOY Adjustment

		Inflation % (2017)			YOY Inflation (PPT Difference)		
		GKMA	OUC	RUA	GKMA	OUC	RUA
	ALL DIVISIONS	6.7	5.0	4.2	5.1	3.4	2.3
01	**FOOD & NON-ALCOHOLIC BEVERAGES**	9.8	5.8	4.4	9.9	6.2	3.8
01.1	**Food**	10.1	6.0	4.6	10.4	6.7	4.1
	Bread and Cereals	3.0	2.6	2.7	0.3	1.3	1.1
	Meat	3.3	3.4	3.3	0.5	0.5	0.8
	Fish and Seafood	5.6	3.7	2.8	3.2	1.3	0.9
	Milk, Cheese and Eggs	2.0	1.2	1.1	0.5	-0.4	0.1
	Oils and Fats	3.2	3.4	3.0	1.2	1.7	1.2
	Fruit	8.8	7.5	3.9	2.0	2.5	0.2
	Vegetables and Starchy Foods	21.6	13.8	11.7	27.9	22.7	17.7
	Vegetables	23.7	15.6	12.8	31.0	26.6	19.6
	Starchy Foods	13.7	8.8	8.3	15.9	11.4	12.1
	Sugar, Jam, Honey, Chocolate and Confect	7.5	6.4	4.2	2.1	2.4	-0.1
	Food Products n.e.c.	7.1	4.0	4.0	3.3	1.4	1.1
01.2	**Non-Alcoholic Beverages**	2.7	2.0	1.7	-0.4	-0.2	-0.8
	Coffee, Tea and Cocoa	3.7	2.4	2.3	0.6	0.1	-0.4
	Mineral Waters, Soft Drinks, Fruit and Veget	2.3	1.9	1.4	-0.8	-0.4	-1.0
02	**ALCOHOLIC BEVERAGES & TOBACCO**	7.6	4.7	4.5	4.6	1.9	1.7
03	**CLOTHING & FOOTWEAR**	1.8	2.8	2.4	0.1	1.1	0.8
03.1	Clothing	1.2	2.4	1.6	-0.4	0.7	0.1
03.2	Footwear	2.6	3.7	3.6	0.9	2.0	1.9
04	**HOUSING, WATER, ELECTRICITY, GAS & O**	7.4	8.5	9.9	1.7	1.7	1.5
04.1	Rentals for Housing	3.5	1.7	1.6	3.2	1.0	1.0
04.3	Maintenance and Repair of Dwelling	3.2	4.4	3.7	-1.0	0.4	0.3
04.4	Water Supply and Miscellaneous Services	4.5	4.5	4.5	-2.1	-2.1	-2.1
04.5	Electricity, Gas and Other Fuels	13.0	14.0	13.1	1.4	3.1	2.1
05	**FURNISHINGS, HOUSEHOLD EQUIPMENT &**	1.5	1.9	1.7	-3.1	-2.2	-2.1
05.1	Furniture and Furnishings (inc. Floor Cover	2.5	1.8	2.1	-0.3	-0.2	0.2
05.2	Household Textiles	1.8	5.6	1.9	0.7	4.1	0.4
05.3	Household Appliances	1.5	3.1	3.0	-2.4	-0.5	-0.8
05.4	Glassware, Tableware and Household Ute	1.4	1.4	1.4	-0.9	-1.9	0.1
05.5	Tools and Equipment for House and Garde	3.5	2.4	1.7	1.1	0.3	0.4
05.6	Goods and Services for Routine Househol	1.3	1.3	1.4	-4.2	-3.7	-3.4
06	**HEALTH**	0.9	1.6	1.7	-0.3	-0.7	-0.6
06.1	Medical Products, Appliances and Equipme	1.5	1.7	1.9	-0.5	-0.7	-0.6
06.2	Health Services	0.4	1.5	1.5	-0.1	-0.6	-0.6
07	**TRANSPORT**	3.6	4.0	3.2	1.9	2.3	2.3
08	**COMMUNICATION**	0.3	0.3	0.2	0.3	0.3	0.2
09	**RECREATION & CULTURE**	2.9	2.6	3.1	0.6	-0.5	0.8
10	**EDUCATION**	1.0	3.0	3.1	-3.7	-0.7	-0.8
11	**RESTAURANTS & ACCOMMODATION SER**	3.0	3.0	2.3	1.3	1.8	1.4
12	**MISCELLANEOUS GOODS & SERVICES**	1.8	2.5	2.1	-1.0	0.2	-0.5
					0.0	0.0	0.0
	ALL DIVISIONS	6.7	5.0	4.2	5.1	3.4	2.3

B

APPENDIX

Bank of Jamaica Certificate of Deposit Auction Results

Table 1

SUMMARY AUCTION RESULTS FOR BANK OF JAMAICA FIXED RATE 30-DAY CD AUCTIONS										
AUCTION DATE	OFFER (J$MN)	COUPON RATE	WEIGHTED AVERAGE YIELD	SPREAD	LOWEST SUCCESSFUL BID	HIGHEST SUCCESSFUL BID (FULL)	BID RATE FOR PARTIAL ALLOCATION	TOTAL SUBSCRIPTION AMOUNT (J$MN)	RANGE OF BIDS	ALL BID YIELD
26-Jul-17	4,000	4.75%	5.48%	0.73%	4.75%	8.00%	N/A	1,653	4.75% - 8.00%	5.48%
2-Aug-17	3,500	4.75%	4.86%	0.11%	4.75%	5.25%	5.50%	8,443	4.75% - 8.50%	5.53%
9-Aug-17	5,500	4.75%	4.58%	-0.17%	4.50%	4.70%	4.75%	13,851	4.50% - 8.00%	4.75%
16-Aug-17	5,500	4.75%	4.36%	-0.39%	4.00%	4.25%	4.45%	17,018	4.00% - 6.04%	4.56%
23-Aug-17	2,500	4.75%	4.07%	-0.68%	4.00%	4.00%	4.10%	9,905	4.00% - 6.04%	4.38%
30-Aug-17	3,000	4.50%	3.94%	-0.56%	3.74%	3.99%	4.00%	7,615	3.74% - 6.25%	4.30%
6-Sep-17	5,000	4.50%	4.27%	-0.23%	3.63%	4.25%	4.50%	7,594	3.63% - 4.50%	4.35%
13-Sep-17	5,000	4.50%	4.10%	-0.40%	3.94%	4.25%	4.30%	13,728	3.94% - 6.00%	4.35%
20-Sep-17	2,500	4.50%	4.00%	-0.50%	3.99%	4.00%	4.05%	9,158	3.99% - 6.00%	4.34%
27-Sep-17	4,000	4.50%	4.00%	-0.50%	3.55%	4.00%	4.02%	10,041	3.55% - 6.00%	4.33%
4-Oct-17	6,000	4.50%	4.06%	-0.44%	3.90%	4.20%	4.50%	11,703	3.90% -4.50%	4.27%
11-Oct-17	6,500	4.00%	3.99%	-0.01%	3.80%	3.99%	4.00%	18,144	3.80% -5.08%	4.06%
18-Oct-17	5,000	4.00%	3.89%	-0.11%	3.79%	3.91%	3.94%	14,810	3.79% - 5.00%	4.30%
25-Oct-17	6,000	4.00%	3.83%	-0.17%	3.70%	5.00%	N/A	5,006	3.99% - 5.00%	3.83%
1-Nov-17	7,000	4.00%	3.90%	-0.10%	3.70%	3.99%	4.00%	14,177	3.70% - 5.25%	4.05%
8-Nov-17	7,500	4.00%	3.84%	-0.16%	3.70%	3.90%	3.94%	15,813	3.70% - 4.90%	3.92%
15-Nov-17	8,000	4.00%	3.84%	-0.16%	3.75%	3.85%	3.86%	15,980	3.75%-5.50%	3.91%
22-Nov-17	8,500	4.00%	3.80%	-0.20%	3.75%	3.83%	3.85%	13,149	3.75%-6.00%	3.91%
29-Nov-17	9,000	4.00%	3.76%	-0.24%	3.60%	3.82%	3.85%	14,605	3.60%-3.90%	3.79%
6-Dec-17	11,000	4.00%	3.80%	-0.20%	3.70%	3.82%	3.85%	15,385	3.70%-5.25%	3.85%
13-Dec-17	10,000	4.00%	3.83%	-0.17%	3.65%	4.99%	N/A	9,254	3.83%-4.99%	3.83%
20-Dec-17	8,500	4.00%	3.78%	-0.22%	3.74%	4.75%	N/A	6,549	3.78%-4.75%	3.78%
27-Dec-17	7,000	4.00%	4.33%	0.33%	3.75%	7.00%	N/A	8,349	3.75%-10.50%	4.82%

Table 2

BANK OF JAMAICA FIXED RATE 1-YEAR CD AUCTIONS - SUMMARY										
AUCTION DATE	OFFER (J$MN)	COUPON RATE	WEIGHTED AVERAGE YIELD	SPREAD	LOWEST SUCCESSFUL BID	HIGHEST SUCCESSFUL BID (FULL)	BID RATE FOR PARTIAL ALLOCATION	TOTAL SUBSCRIPTION AMOUNT (J$MN)	RANGE OF BIDS	ALL BID YIELD
13-Jan-17	1, 000	6.51%	6.99%	0.48%	6.51%	6.95%	7.00%	4,154	6.51% - 10.00%	7.35%
20-Jan-17	1, 000	6.20%	6.69%	0.49%	6.20%	6.80%	6.90%	4,448	6.20% - 7.75%	7.02%
27-Jan-17	1, 000	6.20%	6.54%	0.34%	6.20%	6.60%	6.65%	2,637	6.20% - 8.00%	6.84%
10-Feb-17	2, 000	6.20%	6.66%	0.46%	6.20%	6.90%	7.00%	2,811	6.20% - 8.40%	6.87%
10-Mar-17	2, 000	6.20%	6.89%	0.69%	6.20%	8.00%	n/a	1,162	6.20% - 8.00%	6.89%
17-Mar-17	1, 000	6.25%	6.58%	0.33%	6.25%	6.80%	6.85%	2,502	6.25% - 9.09%	6.72%
24-Mar-17	1, 000	6.25%	6.60%	0.35%	6.25%	6.75%	6.80%	1,833	6.25% - 9.09%	6.60%
19-May-17	2, 000	6.05%	6.12%	0.07%	6.05%	6.25%	6.30%	4,890	6.05% - 7.15%	6.49%
26-May-17	2, 000	6.05%	6.06%	0.01%	6.00%	6.08%	6.10%	3,916	6.00% - 7.15%	6.16%
2-Jun-17	3, 000	6.05%	6.28%	0.23%	6.05%	7.25%	n/a	2,257	6.05% - 7.25%	6.28%
9-Jun-17	3, 000	6.05%	7.07%	1.02%	6.05%	8.00%	n/a	2,071	6.05% - 8.00%	7.07%
16-Jun-17	3, 000	6.10%	7.43%	1.33%	6.10%	9.00%	n/a	2,932	6.10% - 9.00%	7.43%
23-Jun-17	3, 000	6.10%	8.82%	2.72%	6.10%	10.00%	10.50%	3,490	6.10% - 10.50%	9.06%
30-Jun-17	2, 000	6.10%	9.31%	3.21%	6.10%	11.01%	n/a	1,902	6.10% - 11.01%	9.31%
7-Jul-17	1,000	6.10%	8.23%	2.13%	6.50%	9.45%	9.50%	3,462	6.50% - 15.00%	9.63%
14-Jul-17	1,000	6.10%	8.30%	2.20%	7.75%	8.90%	9.00%	3,291	7.75% - 13.00%	9.22%
21-Jul-17	1,000	6.10%	8.37%	2.27%	6.50%	8.40%	8.48%	3,285	6.50% - 10.00%	8.80%

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APPENDIX

Annual Prudential Indicators of Commercial Banks

ANNUAL PRUDENTIAL INDICATORS OF COMMERCIAL BANKS, MERCHANT BANKS AND BUILDING SOCIETIES PUBLISHED PURSUANT TO SECTION 64 (F) OF THE BANKING SERVICES ACT

31-Dec-17

	COMMERCIAL BANKS			MERCHANT BANK			BUILDING SOCIETIES			System Total (aggregation of all 3 sectors)		
	Dec-17	Dec-16	Dec-15	Dec-17	Dec-16	Dec-15	Dec-17	Dec-16	Dec-15	Dec-17	Dec-16	Dec-15
Number of institutions in operation	8	6	6	1	2	2	2	3	3	11	11	11
J$MN												
[1]**Total Assets** (incl. contingent accounts)	1,347,529	1,061,287	918,409	2,029	37,852	30,375	135,214	278,737	246,803	1,484,772	1,377,877	1,195,587
[2]**Total Assets** (excl. contingent accounts)	1,323,542	1,040,497	898,401	1,992	37,654	30,306	135,214	278,734	246,800	1,460,748	1,356,885	1,175,507
Cash & Bank Balances	282,731	208,691	176,398	431	4,694	3,081	6,452	15,369	17,165	289,614	228,754	196,644
Investments [incl. Securities Purch.] (net of prov.)	327,259	268,902	286,858	435	14,115	13,623	46,897	116,365	97,011	374,591	399,381	397,493
Total Loans (gross)	614,903	495,384	413,770	1,015	18,113	12,690	68,507	129,660	117,199	684,425	643,157	543,658
Total Loans (net of IFRS prov.) [a]	605,210	487,400	404,848	1,015	18,040	12,639	68,045	128,428	116,008	674,269	633,868	533,495
Total Deposits	893,014	667,492	587,451	1,626	20,554	16,076	85,626	189,867	168,023	980,266	877,914	771,550
Borrowings (incl. repos)	174,101	174,461	127,651	0	8,506	7,189	19,259	37,625	31,377	193,360	220,592	166,217
Non-Performing Loans [NPLs] (3 mths & >)	15,583	13,508	16,835	0	142	114	2,300	4,757	5,192	17,883	18,407	22,141
Provision for Loan Losses	19,245	17,185	19,058	4	280	204	2,273	4,161	4,286	21,522	21,626	23,549
[3] **Capital Base**	138,026	109,435	93,983	312	5,817	5,246	18,383	29,974	29,788	156,721	145,225	129,017
Contingent Accts [Accept., LC's & Guarantees]	23,987	20,791	20,008	37	198	69	0	3	3	24,024	20,992	20,080
Funds Under Management	0	424	387	0	0	0	0	0	0	0	424	387
Repos on behalf of or for on-trading to clients	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
%												
Rate of Asset [1] Growth	27.0%	15.6%	10.7%	-94.6%	24.6%	-2.0%	-51.5%	12.9%	7.2%	7.8%	15.2%	9.6%
Rate of Deposit Growth	33.8%	13.6%	12.2%	-92.1%	27.9%	15.4%	-54.9%	13.0%	10.4%	11.7%	13.8%	11.8%
Rate of Loans Growth (gross)	24.1%	19.7%	8.6%	-94.4%	42.7%	37.1%	-47.2%	10.6%	9.4%	6.4%	18.3%	9.3%
Rate of Capital Base Growth	26.1%	16.4%	11.0%	-94.6%	10.9%	11.8%	-38.7%	0.6%	2.7%	7.9%	12.6%	9.0%
Rate of NPLs (3 Mths &>) Growth	15.4%	-19.8%	-12.8%	-100.0%	23.9%	22.1%	-51.7%	-8.4%	-8.3%	-2.8%	-16.9%	-11.6%
Investments :Total Assets [1]	24.3%	25.3%	31.2%	21.4%	37.3%	44.8%	34.7%	41.7%	39.3%	25.2%	29.0%	33.2%
Loans (net of prov.):Total Assets [1]	44.9%	45.9%	44.1%	50.0%	47.7%	41.6%	50.3%	46.1%	47.0%	45.4%	46.0%	44.6%
Fixed Assets:Total Assets [1]	2.2%	1.9%	2.0%	0.1%	0.6%	0.8%	1.4%	2.0%	2.1%	2.2%	1.9%	2.0%
Loans (gross) : Deposits	68.9%	74.2%	70.4%	62.4%	88.1%	78.9%	80.0%	68.3%	69.8%	69.8%	73.3%	70.5%
Liquidity												
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities [4]	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	1.0%	1.0%	1.0%		9.5%	9.5%
Average Domestic Currency Liquid Assets: Average Domestic Prescribed Liabilities [4]	33.8%	30.0%	30.6%	32.7%	29.2%	26.8%	9.6%	18.3%	12.7%	31.4%	27.4%	26.5%
Asset Quality												
Prov. For Loan Losses:Total Loans (gross)	3.1%	3.5%	4.6%	0.4%	1.5%	1.6%	3.3%	3.2%	3.7%	3.1%	3.4%	4.3%
Prov. For Loan Losses: NPLs (3 Mths &>)	123.5%	127.2%	113.2%	0.0%	197.9%	178.5%	98.8%	87.5%	82.6%	120.4%	117.5%	106.4%
NPLs (3 Mths &>):Total Loans (gross)	2.5%	2.7%	4.1%	0.0%	0.8%	0.9%	3.4%	3.7%	4.4%	2.6%	2.9%	4.1%
NPLs (3 Mths &>): (Total Assets [1] + IFRS Provision for losses)	1.1%	1.3%	1.8%	0.0%	0.4%	0.4%	1.7%	1.7%	2.1%	1.3%	1.8%	2.3%
Capital Adequacy												
Deposits + Borrowings: Capital (:1)	7.8	7.7	7.6	5.2	5.0	4.5	5.7	6.7	6.5	7.5	7.6	7.3
Capital Base:Total Assets [1]	10.2%	10.3%	10.2%	15.4%	15.4%	17.3%	13.6%	10.8%	12.1%	10.6%	10.5%	10.8%
[5] Capital Adequacy Ratio [CAR]	14.3%	14.1%	13.5%	27.6%	16.5%	19.4%	16.6%	18.1%	21.3%	14.6%	14.8%	14.9%
NPLs (3 mths &>):Capital Base+Prov for loan losses	9.9%	10.7%	14.9%	0.0%	2.3%	2.1%	11.1%	13.9%	15.2%	10.0%	11.0%	14.5%
Profitability												
[6] Pre - tax Profit Margin (for the Calendar Quarter)	20.7%	26.9%	16.6%	-61.7%	30.7%	13.8%	111.1%	10.4%	13.8%	26.7%	24.6%	16.0%
Pre - tax Profit Margin (for the Calendar Year)	23.7%	29.0%	20.6%	-43.3%	23.8%	13.5%	38.5%	14.8%	17.0%	24.5%	26.7%	19.8%
Return on Average Assets (for the Calendar Quarter)	0.6%	0.8%	0.5%	-1.3%	0.9%	0.3%	2.2%	0.2%	0.3%	0.7%	0.7%	0.4%
Return on Average Assets (for the Calendar Year)	2.9%	3.4%	2.3%	-0.4%	2.6%	1.3%	1.6%	1.2%	1.5%	2.6%	2.9%	2.1%
[7] Income Assets/Expense Liabilities (at 31 December)	97.1%	100.7%	112.4%	100.4%	114.8%	119.4%	112.5%	109.9%	112.2%	98.5%	103.0%	112.5%

Notes:
n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 31 January 2018. Prior years indicators may have revisions arising from amendments.

[a] Effective January 2004, the Bank of Jamaica revised its reporting requirements in line with International Financial Reporting Standards (IFRS) and in this regard the following change was effected:
The composition of "Provision for Loan Losses" has been segregated into two (2) distinct components being:
i) provision for losses computed in accordance with IFRS; and
ii) any incremental provisioning necessary under prudential loss provisioning requirements (treated as an appropriation from net profits).
Consequently, "Total Loans (net of prov.)" represents gross loans net of IFRS loan loss provisions per (i) above

FIA Licensees are now referred to as merchant banks in accordance with Section 2 (1) of the Banking Services Act which came into effect 30 September 2015.
Under transitional arrangements, the computation of regulatory capital base and related indicators continue to be computed in accordance with prior legislation.

[1] Total Assets and Liabilities reflected net of IFRS Provision for Losses and include Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit). In keeping with IFRS, Total Assets and Liabilities were redefined to include Contingent Accounts.
[2] Total Assets net of IFRS Provision for Losses and Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit).
[3] Capital Base - Banks & Merchant Banks: (Ordinary Shares+ Qualifying Preference Shares+ Reserve Fund + Retained Earnings Reserve Fund) less impairment by net losses of individual institution.
- Building Societies: (Permanent Capital Fund + Deferred Shares + Capital Shares + Reserve Fund + Retained Earnings Reserve Fund) less impairment by net losses of
[4] Prescribed Liabilities include:
(i) deposit liabilities, (ii) reservable borrowings and interest accrued and payable on (i) & (ii).
[5] Capital Adequacy Ratio (CAR): Qualifying Capital (Tier 1 + Tier 2 capital items less prescribed deductions) in relation to Risk Weighted Assets and Foreign Exchange Exposure.
[6] Pre-tax Profits include extraordinary income/expenditure and adjustments for prior periods.
Return on Average Assets is computed using pre-tax profits as well as assets before provision for losses (in accordance with IFRS) and including contingent accounts (Acceptances, Guarantees and Letters of Credit).
[7] Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less Non-Performing Loans (3 months & over).
Expense Liabilities comprise Deposits and Borrowings including Repo Liabilities (from BOJ, Banks, OFI etc).

	COMMERCIAL BANKS			MERCHANT BANKS			BUILDING SOCIETIES**		
	Dec-17	Dec-16	Dec-15	Dec-17	Dec-16	Dec-15	Dec-17	Dec-16	Dec-15
Required Cash Reserve Ratio	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	1% / 12%	1% /12%	1% / 12%
Required Liquid Assets Ratio (incl Cash Reserve)	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	5% / 26%	5% /26%	5% / 26%

** The Reserve Requirements are differentially applied to societies not meeting the prescribed threshold of residential mortgage lending in relation to savings funds. Societies that meet the prescribed 'qualifying assets' threshold attract the lower Reserve Requirements indicated above. Societies which do not, are required to meet the Reserve Requirements which apply to banks and merchant banks.

Financial Institutions Supervisory Division
Bank of Jamaica

D

APPENDIX

National Financial Inclusion Strategy Launch

NATIONAL FINANCIAL INCLUSION STRATEGY

Access for ALL

On March 29, 2017, the inaugural meeting of the National Financial Inclusion Council was held, followed by the launch of the National Financial Inclusion Strategy. The National Financial Inclusion Strategy (NFIS) establishes a number of objectives intended to improve financial access and usage, promote consumer protection and financial capability and increase MSME finance, agriculture finance and housing finance while strengthening our financial infrastructure. These objectives are to be achieved through the implementation of fifty-three actions by public sector stakeholders.

Image 1: The Hon. Minister of Finance, Mr Audley Shaw, Governor of Bank of Jamaica, Mr Brian Wynter and the Chairman of the Stakeholder Advisory Group, Mr Earl Jarrett at the Launch of the National Financial Inclusion Strategy

As at the end of 2017, the following was achieved:

Financial Access and Usage – Promoting the use of Electronic Retail Payment Services

To foster the environment in which more Jamaicans have access to transactional accounts, such as electronic retail payment products, the regulatory framework for anti-money laundering and counter-financing of terrorism must be reviewed.

In May 2017, the Financial Inclusion Secretariat obtained funding from the World Bank for the acquisition of the World Bank's National Risk Assessment Tool, which will be used by Jamaica in its second national risk assessment. The World Bank also provided training to public sector stakeholders on the use of the National Risk Assessment Tool. This training represented the second of two workshops led by the World Bank on the use of the risk assessment methodology for financial inclusion products.

Image 2: Participants at the World Bank/BOJ Workshop on the Jamaica Financial Inclusion Risk Assessment Workshop

Image 3: Participants attending the NFIS/BOJ Workshop on the National Risk Assessment Tool for Anti-Money Laundering/Counter-Financing of Terrorism Risk

Image 4: Mr. Kuntay Celik of the World Bank, presenting to the participants at the NFIS/BOJ Work-shop

On the National Risk Assessment Tool

Bank of Jamaica submitted its policy proposals for amendments to the Proceeds of Crime Act, to facilitate an enabling provision for the application of graded customer due diligence requirements, in support of a risk based approach to anti-money laundering and the counter-financing of terrorism.

In August 2017, the Payment Systems Department in collaboration with the Financial Inclusion Secretariat published its proposed amendments to the ERPS Guidelines and requested comments from the industry. In November 2017, the Payment Systems Department prepared its draft concept papers on a national payment switch and commitment savings products. Consultation is ongoing.

Responsible Finance – Consumer Protection and Financial Capability

In June 2017, with the assistance of the Office of Technical Assistance, the United States Treasury, stakeholder consultation began with members of the public sector on the relevant policy considerations for the deposit taking institutions' (DTI) consumer protection regulatory framework. Stakeholder consultation continued in November 2017, with members of the public sector and the private sector and non-governmental organisations, including the Jamaica Bankers Association, the Small Business Association, JAMFIN, the Jamaica Co-operative Union League and the Caribbean Micro-Finance Alliance. Work is ongoing for the development of a detailed concept paper for the DTI consumer protection framework by June 2018.

Image 4: Participants in BOJ DTI Consumer Protection and Financial Literacy Workshop

In November 2017, the Inter-American Development Bank provided funding for the procurement of a consultant to assist in the development of a national financial literacy action plan. The consultancy is expected to commence in the first quarter of 2018.

Financing for Growth – Promoting MSME Finance, Agriculture Finance and Housing Finance

The Development Bank of Jamaica (DBJ) and the Planning Institute of Jamaica continue to be the lead on the finalization of the Access to Finance Project with the World Bank, which will advance projects on leasing, factoring and the development of an electronic factoring platform. The FI Secretariat continues to assist with the coordination of work among the project team members.

Under the Adaptation Programme and Financing Mechanism Project for the Pilot Programme for Climate Resilience, the Development Bank of Jamaica acts as the fund facilitator for the climate change adaption line of credit. The DBJ passes funds through to JN Small Business Loans (JNSBL) for on-lending to micro, small and medium sized enterprises (MSMEs) in the tourism and agri-business sectors across Jamaica, to increase resilience to climate change in these sectors. As at end of July 2017, $134 million was disbursed to JNSBL.

E

APPENDIX

Bank of Jamaica's New Foreign Exchange Intervention and Trading Tool (B-FXITT)

Box 1: BOJ's New Foreign Exchange Intervention & Trading Tool

Introduction

In an effort to upgrade and modernize its intervention and trading framework for foreign currency, the BOJ, on 26 July 2017, implemented a new tool for its sale and purchase of foreign exchange (FX) to market intermediaries.[1] The framework, called *BOJ Foreign Exchange Intervention & Trading Tool (B-FXITT)*, is a rule-based, competitive, multiple-price intervention system to buy and sell FX to Authorized Dealers (ADs) and Cambios. This new framework, which benefited from technical assistance from the International Monetary Fund and consultation with market stakeholders, is designed to enhance the effectiveness of BOJ's monetary policy and foreign exchange operations. The implementation of B-FXITT is a fundamental part of the strategy to improve the efficiency and transparency of the foreign exchange market thus providing greater assurance about the availability of foreign currency to the public.

How Does B-FXITT Work?

a) Under B-FXITT, BOJ will offer to sell pre-announced quantities of FX to ADs and Cambios on a weekly basis. These intermediaries will be invited to submit bids to buy or sell FX from or to BOJ at a rate determined by these participants;[2]
b) Bank of Jamaica will sell FX to the market using two mechanisms:
   i. Standard Intervention Tool (SIT) – Using the SIT, the Bank will sell or purchase pre-announced amounts of FX to ADs and Cambios on a weekly basis. The amount of the intervention sale will be partly determined by BOJ's assessment of the market's FX liquidity needs;
   ii. Flash Intervention Tool (FIT) – Using the FIT, the Bank will conduct flash FX sale or purchase operations outside of the regular intervention window in circumstances of diverse market developments. The purpose of the FIT is to offset the effects of excessive volatility in the foreign exchange market. Flash interventions will be triggered by unusual exchange rate volatility and/or abnormal market demand or supply;
c) Each week, the Bank will announce a 4-week schedule of how much it will sell to the market at each auction;
d) The sale operations will commence at 8:45 am on Wednesday of each week and close at 9:15 am;
e) The rate that will result from the operations will be the weighted average of all the successful bids;
f) The results of the operations will be posted by 10:00 am to the Bank's website and also sent to the press on the same day; and
g) Settlement will occur on the day following the operation.

How Does B-FXITT differ from BOJ's current or past intervention policies?

There are four major differences between the current system of foreign exchange intervention and B-FXITT.

a) Under B-FXITT the Bank will conduct weekly (pre-announced) interventions. The Bank will also conduct flash interventions if market conditions warrant. Under the previous system, all interventions were unscheduled and were only done when the Bank perceived the need to do so;
b) Under the current system, the Bank sells to the ADs and Cambios at the previous day's weighted average selling rate (WASR). This is considered sub-optimal as it may enable participants to benefit from differences between the previous day's rate and the prevailing market rate. Under the new intervention policy, the Bank will invite ADs and Cambios to submit bids to purchase funds from BOJ at a rate reflective of underlying demand and supply conditions in the market. This method provides a measure of the exchange rate at which the market is willing to purchase funds thereby enhancing price discovery;
c) Under the current intervention system, BOJ determines both the price and volume. For B-FXITT, only the volume will be determined by BOJ; and

[1] These intermediaries are comprised of Authorized Dealers and eligible Cambios.
[2] While the framework allows for both the sale and purchase of FX to and from the market, in the initial stages, the Bank will be using the framework for the sale of FX only.

d) B-FXITT provides a more transparent allocation strategy with clearer rules relative to what pertains under the current system. Market participants will be aware in advance of the intervention amounts.

B-FXITT should not be likened to previous foreign exchange systems implemented in Jamaica. These were generally introduced during periods of chronic foreign exchange shortages. In particular:

a) B-FXITT is being introduced at a time when the gross reserves of the Central Bank amounted to US$3.2 billion at end-June 2017, the equivalent of approximately 24 weeks of goods and services imports and the highest in the history of Jamaica;
b) In contrast to what obtained in the 1980s, there will be no prescribed bands within which the exchange rate must fall;
c) Under B-FXITT, foreign exchange trading will not be centralized at BOJ, in contrast to what obtained in the 1980s; and
d) Unlike the system in the 1980s, there is no exchange control under B-FXITT. Exporters and other earners of foreign exchange will not be mandated to sell BOJ foreign exchange.

The impact of B-FXITT on the public

a) The introduction of B-FXITT will not affect the manner or freedom with which members of the public currently purchase or sell foreign exchange from or to ADs and Cambios. Individuals and companies will continue to be free to buy or sell any amount of foreign currency they can afford or desire;
b) There will be no urgency for individuals and companies to forward buy foreign currency at exorbitant prices since B-FXITT guarantees a continuous supply of foreign currency to the market; and
c) Interested members of the public will receive more precise and timely information on the foreign exchange market.

The impact of B-FXITT on BOJ's Operations

The new intervention policy will provide significant benefits for the market and for BOJ's operations. These include:

a) Increased transparency to the market and the public about BOJ's FX market intervention. Market players will know the exact amount being sold or purchased by the BOJ in contrast to the current system where the Bank offers to trade an undisclosed amount;
b) The use of market based price signals (demand and supply conditions) to more effectively determine the exchange rate. Currently, the intervention rate is at the previous day's weighted average selling rate which may not reflect the true market price on the day of the transaction; and
c) The reduction of uncertainty about market liquidity which allows ADs and Cambios to better manage large client order flows that may have a distorting effect on the market.

The impact of B-FXITT on the exchange rate

An important feature of this tool is to ensure smooth functioning of the FX market, assure FX liquidity and reduce excess volatility in the exchange rate.[3] B-FXITT is not intended to distort the underlying FX conditions. The Bank is cognizant that demand conditions will vary from week to week, hence the mechanism is intended to encourage a flexible exchange rate that moves in both directions based on market conditions. This is in contrast to a rate that generally moves in one direction.

[3] BOJ is sometimes not fully aware of a build-up of excess demand in the market until participants can no longer postpone their needs. This situation, when it occurs, can result in panic buying and multiple bids by end-users, which multiplies the signal of excess demand and results in large lurches in the exchange rate. The same entity trying to buy US$10 million that asks three different Authorized Dealers for the funds can be misread by the market as a demand for US$30 million. This is not best practice in terms of market transparency and efficiency.

The impact of B-FXITT on the Net International Reserves

The Bank will continue to maintain adequate reserve levels and will abide by its reserve accumulation targets. The determination of the quantity of FX to sell to the market each week will take into consideration the Bank's reserves levels, medium term NIR targets and the demand/supply conditions in the market.

inflation and the monetary targets outlined under the country's precautionary SBA programme with the IMF.

In closing, I extend thanks to the board members, managers and staff for their continued support and commitment to achieving the objectives of the Bank.

Brian Wynter, CD
Governor

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