QUARTERLY MONETARY POLICY REPORT

April - June 2010
Volume 11 No. 1

Bank of Jamaica

Quarterly Monetary

Policy Report

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ISSN 0799 1037

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influence inflation. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue features a discussion on the Adequacy of the Bank of Jamaica's Gross International Reserves as well as a feature on exchange rates and external competitiveness.

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

OVERVIEW

Recent Developments

There was continued improvement in the key macroeconomic indicators during the June 2010 quarter. Inflation and market-determined interest rates trended downwards, the net international reserves (NIR) remained strong, the rate of contraction in real economic activity slowed and the Government's primary balance exceeded budget. The indicators suggest that the quantitative targets in the IMF Stand-By Arrangement (IMF-SBA) for the June 2010 quarter will be comfortably met.

The quarterly rate of inflation for the review quarter declined to 2.6 per cent from 4.1 per cent in the previous quarter. This outturn was just above the lower bound of the 2.5 per cent to 3.5 per cent forecast range for the June 2010 quarter. The decline in the rate of general price increase during the review period occurred despite the significant impact of the increase in bus fares in April. (This increase resulted in ***Transportation*** accounting for 81.2 per cent of the 1.3 per cent inflation recorded in that month.) The moderation in inflation was driven by lower imported commodity prices, the appreciation in the exchange rate and weak consumer demand. Slower rates of price increases were reflected in durables and non-agriculture food items, while household energy costs fell.

With regard to imported commodity prices, crude oil prices declined by 7.4 per cent during the quarter, influenced by growing concerns about the impact of the sovereign debt crisis in Europe on global energy demand. The price for rice, soybean, corn and wheat also fell due to high inventories and increased production.

The pace of appreciation of the exchange rate accelerated during the review quarter, relative to the preceding quarter. The weighted average selling rate appreciated by 4.1 per cent, the largest quarterly appreciation since the June 1996 quarter. This primarily reflected increased investor preference for Jamaica Dollar instruments, evidenced by an expansion in net private capital inflows. The Bank estimates that net private capital inflows increased by US$373.1 million during the quarter, which was more than sufficient to offset an increase in demand for foreign exchange for current account transactions.

In an effort to stabilize the foreign exchange market, the BOJ purchased approximately US$54.0 million (net) from authorised foreign exchange traders during the quarter. In this context, the NIR as at end-June 2010 was US$1 795.8 million, approximately US$44.0 million higher than the stock at the end of the previous quarter and US$363.0 million above the IMF-SBA target. Correspondingly, the Bank's gross reserves represented 19.7 weeks of goods and services imports, which compare favourably with the international benchmark of 12.0 weeks (see **Box 2:- Adequacy of BOJ's Gross International Reserves**). Of note, the gross reserves were buoyed by the disbursement of SDR 63.7 million (US$93.9 million) from the IMF on 23 June 2010, under the Stand-by Arrangement.

Economic activity, though showing some signs of improvement, remained weak during the review period. Real gross domestic product is estimated to have declined in the range of 0.0 per cent to 1.0 per cent. This improvement primarily reflected a resumption of growth in the mining and transportation sectors. However, weak domestic consumption continues to adversely affect the non-tradable sectors. The value added of the financial sector was also affected by the impact of the Jamaica Debt Exchange on net interest income.

In the context of an improved outlook for inflation and the generally positive economic developments, the Bank continued to ease monetary policy in the review period. The 30-day open market interest rate was reduced by 100 basis points (bps) over the quarter to 9.0 per cent. Against this background, market interest rates continued to decline. The benchmark 180-day Treasury Bill yield declined by 123 bps to 9.26 per cent at end-June, relative to end-March 2010. This was the sixth consecutive quarter of decline. The decline in yields was also influenced by a strong demand for short term instruments and buoyant Jamaica Dollar liquidity. Given this liquidity the BOJ continued the sale of GOJ securities from its portfolio on the secondary market. This secondary sale of GOJ securities, which were priced above par, absorbed $14.8 billion from the financial market and completed the sterilization of the accommodation extended to Government by the BOJ in the December 2009 and March 2010 quarters.

This initiative assisted in restraining the growth in the monetary base to 0.6 per cent in the June 2010 quarter, slower than the 2.1 per cent expansion in the corresponding quarter of 2009. The sale of GOJ securities from the Bank's portfolio, as well as the build-up in Government deposits at the BOJ, was largely responsible for the maintenance of the Bank's net domestic assets below the ceiling set under the IMF-SBA.

Outlook

The outlook for the Jamaican economy remains positive, notwithstanding challenges to economic growth. The performance of the Jamaican economy will largely depend on continued recovery in the global economy, particularly in the USA. Although the outlook for global growth remains positive, there are concerns about the strength of the recovery. These concerns arise from the risks to economic growth posed by the fiscal imbalances in a number of European economies as well as continued weakness in US housing and labour markets.

Against this background, a modest growth in real GDP is anticipated in the range of 0.0 per cent to 1.0 per cent for the September 2010 quarter and for FY2010/11. This improvement is mainly due to the projected performance of ***Agriculture, Forestry & Fishing***, ***Mining & Quarrying*** and ***Transport, Storage & Communication***.

A further moderation in inflation is expected over the remainder of the fiscal year. In particular, the rate of increase in the general price level is forecasted to be in the range of 1.5 per cent to 2.5 per cent for the September 2010 quarter. This outlook is significantly lower than the seasonal average for a September quarter and mainly reflects the influence of weak demand conditions and relatively low imported inflation. The weak demand, which is captured in estimates of the output gap, is influenced by the low but improving level of real economic activity. The low imported inflation primarily reflects the impact of the stability in the exchange rate which is expected to moderate the pass-through of a rise in imported prices. Some inflationary impetus from domestic agriculture prices is expected in the early part of the quarter due to the lagged effects of drought conditions.

Inflation for the fiscal year is projected to decline to single digits, closer to the lower bound of the 7.5 per cent to 9.5 per cent target range. The risks to the inflation forecast, as depicted in the Bank's projection fan chart (see **Economic Outlook and Monetary Policy Perspectives**), are balanced. The upside risk includes adverse weather related supply shocks, in a context of an outlook for an active hurricane season. The main downside risk is weaker than anticipated domestic demand.

Against the background of weak demand and credit growth, the Bank effected a 2.0 percentage point reduction in the cash reserve ratio for the deposit-taking institutions in respect of their prescribed local currency liabilities to 12.0 per cent on 01 July 2010. The Central Bank's policy strategy will continue to be guided by the trajectory of inflation and the evolution of the balance of risks around the single digit inflation target.

1. International Developments

Global economic recovery continued in the June 2010 quarter. However, the rate of recovery was tempered by developments in the European Union. In addition, economic activity in the US was negatively affected by the expiration of some government stimulus measures in the housing sector. Growth in some other developed and emerging economies remained buoyant, supported by domestic spending and a decline in imports.

Central banks of most advanced economies kept target interest rates unchanged. This was influenced by significant budget deficits in some EU member states, notably Greece, which raised concerns about fiscal sustainability and its impact on the health of the financial system. Within emerging market economies, improved prospects for growth led to a decline in international bond yields.

In the context of increasing concerns about the impact of the sovereign debt crisis in Europe on global energy demand, crude oil prices declined during the quarter. The price for some agricultural commodities also fell, reflecting the impact of high inventory levels. Despite falling commodity prices, Jamaica's terms of trade (TOT) index declined, due to lower prices for the country's major exports, namely tourism and alumina.

Table 1.1

Selected GDP Growth Rates			
	Dec-09	**Mar-10**	**Jun-10**
USA	5.6	2.7	2.4
Canada	4.9	6.1	3.1*
Japan	4.6	5.0	1.7*
China	10.7	11.9	10.5*
UK	-3.2	-0.2	1.6*
Euro	-2.1	0.6	-1.2*

*Sources: Central Statistics Offices *BOJ Estimates*

Global Economic Recovery

Fiscal concerns in Europe presented a risk to global economic recovery during the June 2010 quarter.

The global economy is estimated to have expanded in the June 2010 quarter, largely driven by growth in emerging economies, notably in Asia. China, in particular, is estimated to have grown by 10.5 per cent in the June quarter. Growth in China and other Asian economies resulted from a rebound in demand for their exports as well as rising domestic demand. Latin American countries also expanded in the June 2010 quarter resulting from high domestic demand, due to increased spending in the construction sector. Developed economies, however, expanded at a slower pace, during the quarter.

Real GDP in the US is estimated to have grown by 2.4 per cent on an annualised basis for the June 2010 quarter following a 2.7 per cent expansion for the March 2010 quarter (see **Table 1.1**).

The deceleration in growth in the quarter primarily reflected a decline in net exports, continuing the contraction in the March 2010 quarter. This resulted from a slowdown in growth in imports from major trading partners during the quarter, most notably the European Union. This was partly offset by lower consumption expenditure on non-durable goods and slower growth in private investment. The Canadian economy continued to expand due to buoyant consumption and investment spending.

In contrast, real GDP in the Euro zone is expected to have contracted as several governments implemented austerity programmes aimed at containing high fiscal deficits.[1] Notably, the EU and IMF economic and financial rescue package for Greece agreed in May 2010, required cuts in public sector wages and pensions as well as a reduction in government consumption and public sector investment. Other European nations, such as Spain, Portugal and Italy, also implemented programmes which included the lowering of civil servants pay and the freezing of pensions. The plans also included measures to increase government revenues via higher taxes. These austerity programmes would have adversely affected growth in the Euro area during the June 2010 quarter.

Table 1.2

Annual Inflation for Selected Economies (twelve month point-to-point) Mar 10 - Jun 10

	USA	Canada	UK	Japan	Euro Area
Mar	2.39	1.40	3.37	-1.09	1.44
Apr	2.24	1.84	3.72	-1.19	1.53
May	1.96	1.39	3.34	-0.89	1.61
Jun	1.11	1.13	3.24	-0.81	1.42

Source: Central statistics offices

Unemployment declined marginally for the US and Canada during the June 2010 quarter. In the US, the unemployment rate fell to 9.5 per cent at June 2010 from 9.7 per cent in March 2010. This primarily reflected an increase in temporary employment for the 2010 Census exercise.[2] In Canada, consistent with rising demand, the unemployment rate fell to 7.9 per cent for June, from 8.2 per cent at March. However, labour market data for the Euro area showed that compared to March 2010, the unemployment rate for May remained unchanged at 10.0 per cent.

Inflation decelerated for most of the major developed economies during the June 2010 quarter (see **Table 1.2)**. The twelve-month

[1] As at June 2010, ten out of sixteen Euro area countries reported debt ratios above the 60.0 per cent of GDP reference value. In the cases of Greece and Italy, the value was well above 100.0 per cent of GDP.

[2] The US Bureau of Labour Statistics reported in May that 411 000 temporary employees were hired to work on the 2010 census exercise.

inflation in the US, Canada and the UK for June fell by 1.28 percentage points, 0.27 percentage point and 0.13 percentage point, respectively, relative to March. The downward trend in inflation for Canada and the UK was primarily attributed to a decline in costs associated with transportation, recreational activities and food. For the US, a reduction in transportation costs was the primary contributor to lower inflation. Annual inflation in the Euro area declined marginally by 0.02 percentage point relative to the March 2010 quarter. This was largely due to declines in the prices of transportation and recreational activities. Deflation in Japan slowed by 0.28 percentage point during the quarter.

International commodity prices declined in the June 2010 quarter.

The major international stock market indices fell during the June 2010 quarter, after rising in the previous four quarters. In the US, the Dow Jones Industrial Average and S&P 500 indices declined by 10.0 per cent and 11.9 per cent, respectively, relative to the previous quarter. In the UK, the FTSE 100 Index fell by 13.4 per cent. The downward trend in stock prices reflected concerns about global economic recovery as conditions in the Euro area deteriorated. Stock prices were also impacted by negative macroeconomic reports emanating from the US, particularly with respect to the housing sector following the expiration of the home buyer's tax credit in June.

Table 1.3

Selected Import/Export Prices (period averages) (Per cent changes relative to previous period)			
	Dec-09	**Mar-10**	**Jun-10**
Crude Oil	11.5	3.4	-0.9
Soybeans	-3.3	-5.1	-2.0
Corn	10.9	-3.0	-3.1
Rice	0.6	-1.1	-15.5
Wheat	7.2	-3.0	-6.3
TIPI*	-0.9	13.2	-0.7
Aluminium	10.5	7.7	-3.1

Source: IMF Pink Sheet
**** Tourism Implicit Price Index***

Terms of Trade

Jamaica's terms of trade (TOT), as measured by the Bank's TOT index, declined by an estimated 2.6 per cent during the June 2010 quarter, relative to the March 2010 quarter. The TOT also fell by 11.5 per cent on an annual basis. The movement in the TOT during the review quarter reflected a decline of 1.8 per cent in the Export Price Index (EPI), as well as a 0.9 per cent increase in the Import Price Index (IPI).

The fall in export prices reflected estimated declines of 2.6 per cent and 0.7 per cent in the prices of alumina and Jamaica's tourism product, respectively. The decline in alumina prices was associated with a falloff in world aluminium prices as concerns about fiscal deficits in Europe threatened global recovery. The decline in the Tourism Implicit Price Index primarily reflected a fall in average tourist expenditure, particularly on air transportation, following the divestment of Air Jamaica (see **Table 1.3)**. Disturbances in sections of Kingston also resulted in lower tourist arrivals during the quarter.[3] The performance of the IPI was mainly influenced by a 6.2 per cent increase in the price of industrial raw material due to growing demand for these commodities in emerging economies such as China and India.

Crude oil prices fell marginally in the June 2010 quarter by 0.9 per cent.[4] This decline reflected concerns about the sovereign debt crisis in Europe, which resulted in an appreciation of the US dollar and consequently, reduced the investment appeal of commodities, particularly oil. Prices also fell on fears that China's attempts to prevent its economy from overheating could negatively impact global economic recovery.

There was also a general decline in the prices of agricultural products during the review quarter (see **Table 1.3**). The fall in grain prices reflected continued high levels of inventory as well as increased production as a result of favourable weather in the US Midwest. A fall in corn and soybean prices, however, was tempered by a boost in demand from China, whose domestic production was negatively impacted by drought conditions in June. The decline in rice prices reflected increased production in Asian countries, most notably Vietnam and Thailand. In addition, the government of Thailand resumed exports of rice to government and private sector entities, further adding to market supply. A general reduction in global demand also added to the downward pressure on rice prices.

Table 1.4

Selected Benchmark Interest Rates
Mar 10 - Jun 10

	USA[a]	UK[b]	Euro Area[b]	Japan[c]	Canada[d]
Mar	0.25	0.50	1.00	0.10	0.25
Apr	0.25	0.50	1.00	0.10	0.25
May	0.25	0.50	1.00	0.10	0.25
Jun	0.25	0.50	1.00	0.10	0.50

Source: Central Banks

[a] Fed funds rate
[b] Repo rate
[c] Discount rate
[d] Benchmark lending rate

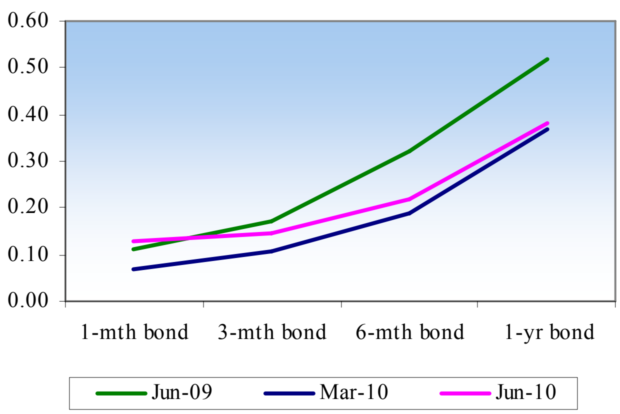
Monetary Policy

With the exception of Canada, the central banks of major advanced economies kept target interest rates unchanged during the June 2010 quarter (see **Table 1.4**). The US Federal Reserve (Fed), in particular, noted that financial conditions had become less supportive of economic growth, largely reflecting developments in the Euro zone. The Fed also re-established US

[3] See Real Sector
[4] Crude oil prices as measured by the benchmark West Texas Intermediate at Cushing, in US dollars per barrel.

Figure 1.1

US Treasury Yield Curve



dollar liquidity-swap lines with other central banks, including the European Central Bank (ECB), in light of the re-emergence of strains in short-term US dollar funding markets. The maintenance of this monetary stance was facilitated by low levels of inflation.

In adjusting its benchmark lending rate, to 0.5 per cent from 0.25 per cent in June 2010, the Bank of Canada (BoC) noted that this was intended to re-establish the normal functioning of the overnight market. The BoC highlighted that this decision was underpinned by robust economic growth of 6.1 per cent in the March 2010 quarter, a resumption of employment growth in the real sector and expectations that household spending would decelerate to a pace more consistent with income growth. The BoC also noted that consumer price inflation was in line with the Bank's projections and anticipated an increase in business investment that would support a more balanced recovery.

The tensions in the sovereign debt markets of some Euro area countries spread to other segments of the financial markets, and impaired the normal functioning of these markets. The risk of a breakdown in the monetary transmission mechanism prompted the ECB on 10 May to announce the introduction of several measures aimed at restoring stability. These included interventions in the Euro area public and private debt securities markets under the Securities Markets Programme, the reactivation of swap lines with the US Federal Reserve and the introduction of additional liquidity injection facilities. Following the announcement of these policy measures, tensions in financial markets declined significantly.

Selected Interest Rates

Consistent with the removal of liquidity programmes in the previous quarter and near term concerns about the health of the US economy, short-term market interest rates in the US trended up during the quarter. However, the absence of inflationary pressures and the Federal Reserve's pledge to keep interest rates low for an extended period caused long-term rates to trend downwards. Consequently, the average yield in the secondary market for short-term US Treasury bills rose by 4 bps to 0.22 per

Table 1.5

Selected Market Interest Rates (period averages)				
	3-month USD LIBOR	6-month USD LIBOR	1-year USD LIBOR	TED Spread (bps)
Sep-09	0.41	0.83	1.40	25
Dec-09	0.32	0.66	1.26	22
Mar-10	0.26	0.40	0.88	15
Jun-10	0.43	0.63	1.09	29

Source: British Bankers' Association

cent relative to the preceding quarter, while the yields on long-term bonds fell by 21 bps to 3.10 per cent (see **Figure 1.1)**. The average US dollar LIBOR across the 3-month tenor to the 1-year tenor rose by 21 bps (see **Table 1.5**). The spread between the 3-month US LIBOR and the 3-month US Treasury bill (TED spread), an indicator of credit risk in the US market, also rose by 14 bps relative to the previous quarter, to average 29 bps. This increase in the TED spread was associated with renewed fears of contagion in US money markets, given the sovereign debt crisis in Europe.

Emerging Market Bonds

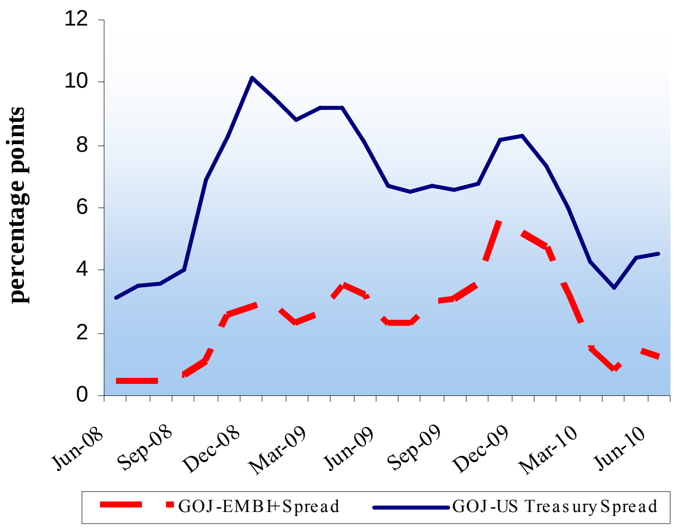
Average yields on emerging market bonds fell during the quarter reflecting optimism about prospects for growth in developing countries and easing concerns about Europe following the successful negotiation of the economic rescue package for Greece. Consequently, the average yield on the JP Morgan Emerging Market Bond Index Plus (EMBI+) declined by 12 bps to 6.43 per cent during the quarter. Notably, average yields rose by 25 bps in May on concerns about Greece's ability to implement the austerity measures contained in the rescue package. These concerns, along with the fiscal constraints faced by other European nations, prompted sovereign debt downgrades for Greece, Spain and Portugal, which dampened demand for these high risk instruments.

Foreign Exchange Market

The US dollar strengthened against all the major currencies, with the exception of the Canadian dollar during the review period. Relative to the averages in the March 2010 quarter, the Euro, the Great British Pound and the Japanese Yen depreciated against the United States Dollar by 8.0 per cent, 4.4 per cent, and 1.5 per cent, respectively. This largely reflected a flight to the relative safety of the US dollar, as uncertainty surrounding global economic recovery reduced investors' risk appetite. In particular, the Euro weakened against the US dollar in light of the fiscal crisis in several European countries, which were not fully resolved during the quarter. The Canadian dollar, however, appreciated by 1.2 per cent in light of stable oil prices and a relatively stronger Canadian economy.

Figure 1.2

GOJ Global Bond Spreads



The fiscal concerns in Europe contributed significantly to the tenuous nature of the global economic recovery. Fears of a slowdown in economic growth and abundant inventories prompted declines in international commodity prices. This negatively affected Jamaica as the price for major exports fell. Lower prices for imports, however, augured well for domestic inflation. Despite renewed concerns about growth, Jamaica's major trading partners continued to post modest but steady improvements in the labour markets, which positively impacted remittance flows. International investors' diminished interest in holding European bonds, due to the sovereign debt crisis and consequent debt downgrade, had a positive impact on GOJ global bond yields. This occurred as investors shifted out of these relatively risky assets into other markets with a higher degree of fiscal stability. The resulting decline in spreads between GOJ global bonds and other emerging market bonds, could have positive implications for the domestic financial sector and the exchange rate (see **Figure 1.2**).

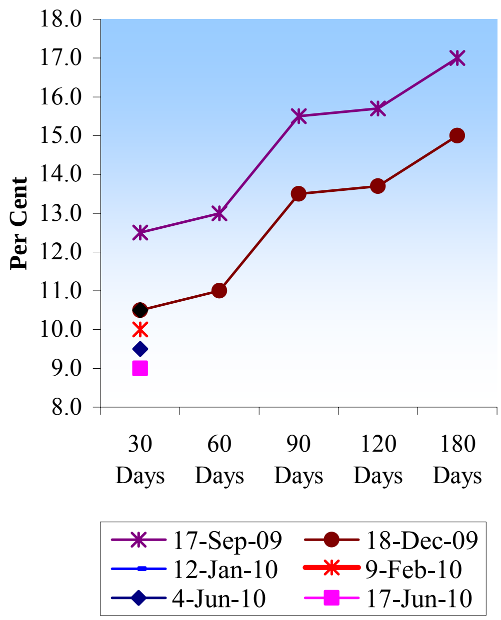
2. Monetary Policy and Financial Markets

Table 2.1

Selected Economic Indicators	Outturn Jun '10 Quarter	Projection Jun '10 Quarter	Original Target for FY 10/11
Inflation (% Change)	2.6	2.5-3.5	7.5-9.5
Gross Foreign Assets (eop) (US$MN.)	2 526.7	2 409.1	2 414.4

Figure 2.1

BOJ Certificates of Deposit Yield Curve[5]



[5] The 60-day to 180-day OMO instruments were removed on 12 January 2010.

Money & Credit

Monetary Policy and Base Money Management

During the June 2010 quarter, the Bank loosened its monetary policy stance. This occurred in a context of generally positive developments in the domestic economy. These developments included an improvement in the inflation outlook, continued declines in market-determined interest rates as well as improved confidence consequent on the achievement of the March 2010 quarter targets under the International Monetary Fund Stand-By Arrangement (IMF-SBA). In this context, the Bank reduced the interest rate applicable to its 30-day open market operation (OMO) security by 100 basis points (bps) to 9.0 per cent.

As part of its liquidity management, the Bank continued secondary market sales of GOJ securities from its portfolio to Primary Dealers. This action fully re-absorbed injections from earlier advances to the Government of Jamaica (GOJ).

Against this background, the Bank achieved its monetary targets outlined in the IMF-SBA programme for the June 2010 quarter. The monetary base expanded by 0.6 per cent during the review quarter, relative to an expansion of 2.1 per cent in the June 2009 quarter.

The Bank eased its monetary policy stance in the June 2010 quarter, in a context of relatively strong net international reserves (NIR), general appreciation of the foreign exchange rate as well as continued reductions in market-determined interest rates. In addition, the Bank's action was also supported by improved investor confidence arising from announcements that Jamaica had met its first targets under the IMF-SBA. This loosening of the Bank's monetary policy stance also occurred in a context where inflation continued to tend towards the lower end of the target range of 7.5 per cent to 9.5 per cent for FY 2010/11. As such, on 04 June the Bank reduced the interest rate applicable to the 30-day open market operation (OMO) instrument by 50 basis points (bps) to 9.5 per cent. A further 50 bps reduction to 9.0 per cent was effected on 17 June (see **Appendix Table 7**). Consequent on the IMF Board's acknowledgement that the IMF-SBA target had been met, US$93.9 million was dispersed for

Figure 2.2
Base Money
(Quarterly Change)

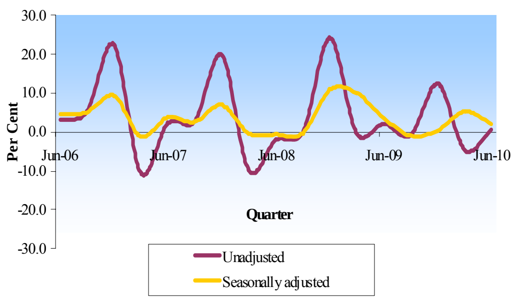
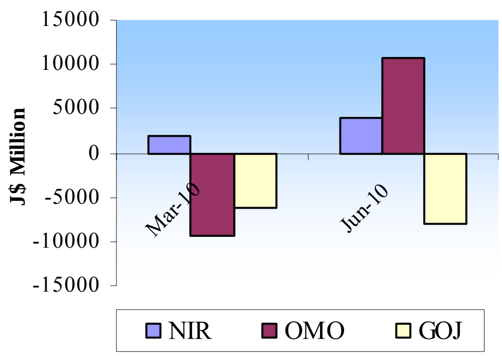


Figure 2.3

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



* Absorption – negative; Injection - positive

Table 2.2

IMF-SBA Programme Targets - June 2010 Quarter			
	IMF-SBA Target	Outturn	Variance
Net International Reserves (US$ MN.)	1 396.0	1 759.3	363.3
Net Domestic Assets (J$MN.)	-47 908.0	-79 435.7	-31 527.7
Monetary Base (J$MN.)	76 900.0	77 757.8	857.8

Balance of Payments support. These inflows boosted the gross foreign reserves to in excess of US$2.5 billion (see **Table 2.1**).

The monetary base expanded by $435.4 million or 0.6 per cent during the June 2010 quarter (see **Figure 2.2**). This compares to an expansion of 2.1 per cent in the June 2009 quarter. The expansion in the monetary base was largely reflected in increases in the commercial banks' local currency cash reserves of $577.5 million as well as an increase in the commercial banks' current accounts of $299.4 million. This impact was partially offset by net currency redemption of $441.6 million or 0.9 per cent. The monetary base was $0.9 billion above the stock of $76.9 billion outlined in the monetary programme (see **Table 2.2**). The deviation largely reflected higher than anticipated commercial banks' current account balances on the final day of June. Abstracting from this outturn, the monetary base would have been largely in line with programme.

The main source of the expansion in the monetary base was an increase in the net foreign assets, as the NIR increased by US$43.9 million during the review quarter, injecting the equivalent of $3.9 billion into the system. The NIR exceeded the programme target by US$363.3 million.

The net domestic assets (NDA) also over-performed programme targets by $31.5 billion. Within the NDA, the expansion in the monetary base was influenced by net unwinding in OMOs of $10.6 billion, which predominantly reflected net maturities on the 30- to 365-day OMO securities. These impulses were partially offset by a net build-up in GOJ deposits held at the Bank. In addition, there was a reduction in the Bank's holdings of GOJ securities, which largely reflected the Bank's secondary market sales of GOJ securities from its portfolio to reverse injections from earlier advances to the GOJ. These secondary sales of GOJ securities were priced above par and absorbed $14.8 billion from the financial market.

Figure 2.4
Money Supply
(Quarterly Growth Rates)
June 2006 to June 2010

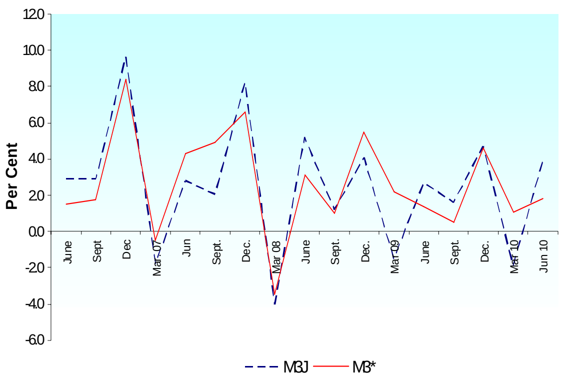


Table 2.3

Money Supply (12-month growth rates)		
MJ	**Jun-09**	**Jun-10**
M1J	7.0	5.5
M2J	4.3	6.0
M3J	6.4	8.6
M*		
M1*	9.4	4.5
M2*	9.7	3.8
M3*	10.3	6.1

Table 2.4

INTEREST RATES IN THE DOMESTIC MARKET			
	May-09	**Mar-10**	**May-10**
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**5.03**	**3.29**	**3.19**
Demand	2.26	1.54	2.02
Savings	4.40	2.69	2.52
Time	7.18	5.41	4.96
Foreign Currency	**2.99**	**2.11**	**1.93**
Demand	1.47	1.20	1.31
Savings	1.98	1.33	1.15
Time	4.96	3.82	3.40
6-MONTH TREASURY BILL RATE	**21.08**	**10.49**	**9.91**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**21.00**	**N/A**	**N/A**
PRIVATE MONEY MARKET RATE (30-day)	**19.00**	**10.10**	**10.05**
memo:			
6-MONTH U.S. TREASURY RATE	**0.30**	**0.23**	**0.22**

Money Supply

During the June 2010 quarter, broad Jamaica Dollar money supply (M3J) increased by 3.9 per cent, compared to the growth of 2.7 per cent recorded in the June 2009 quarter. The expansion in the review quarter was also at a faster rate than the average growth of 3.3 per cent recorded for the last five June quarters.

The measure of money supply that includes foreign currency deposits (M3) increased by 1.8 per cent relative to an expansion of 1.4 per cent in the corresponding quarter of 2009[6]. Within M3*, foreign currency deposits declined by 3.4 per cent, which was a sharper reduction than the decline of 1.6 per cent recorded in the June 2009 quarter. As at end-June 2010, the ratio of foreign currency deposits to total deposits was 29.8 per cent which was lower than the 31.6 per cent recorded at end-June 2009.*

For the June 2010 quarter, broad Jamaica Dollar money supply (M3J) increased by 3.9 per cent. This expansion was in comparison to the outturn of 2.7 per cent for the June 2009 quarter and the average growth of 3.3 per cent for the last five June quarters (see **Figure 2.4**). As at June 2010, the annual growth in M3J was 8.6 per cent relative to 6.5 per cent for the 12-month period ended June 2009. The main source of expansion in M3J for the June 2010 quarter was a net unwinding of OMO securities. This was complemented by an increase in the NIR (see **Monetary Policy and Base Money Management**).

The increase in money supply during the review quarter was reflected in an expansion of 4.5 per cent in local currency deposits as currency in circulation declined by 0.3 per cent. The growth in local currency deposits was relative to the increase of 2.6 per cent in the June 2009 quarter and the average growth of 3.3 per cent for the last five June quarters. The growth in local currency deposits in the quarter was mainly reflected in expansions of 6.6 per cent and 9.8 per cent, respectively, in *demand* and *time deposits*. There was also an increase of 2.7 per cent in *savings deposits*.

[6] M3* includes M3J and foreign currency deposits.

Figure 2.5
Deposits in Commercial Banks
(Quarterly Growth Rates)
June 2007 to June 2010

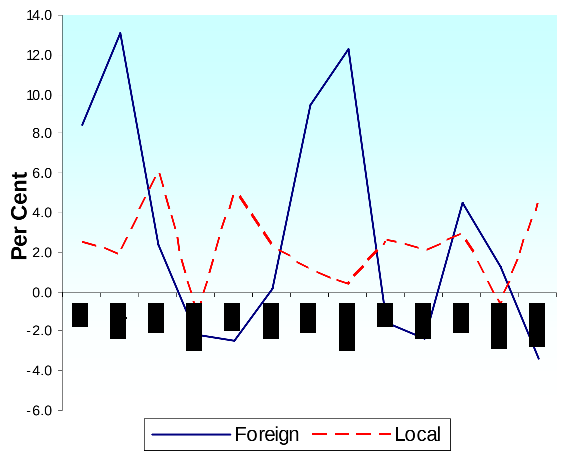


Figure 2.6
Foreign Currency Deposits to Total Deposits
June 2007 to June 2010

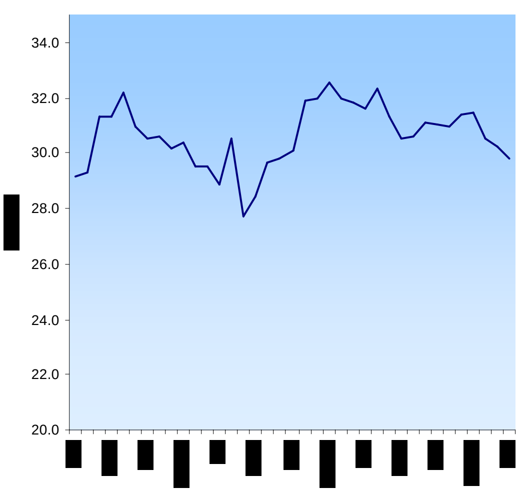


Table 2.5

COMPONENTS OF THE MONEY MULTIPLIER	Jun-09	Mar-10	Jun-10
Currency to Deposits (%)	15.61	15.93	15.20
Reserves to Deposits (%)	14.15	14.42	14.00
Money Multiplier	**3.89**	**3.82**	**3.94**

The reduction of 0.3 per cent in currency in circulation was relative to an average growth of 3.5 per cent in the last five June quarters. In real terms, there was a reduction of 6.2 per cent in currency in circulation for the 12-month period ended June 2010 relative to a decline in real terms of 1.3 per cent for the corresponding period ended June 2009. The continued real decline in currency may be attributed to the reduction in overall real economic activity over the last ten quarters (see **Real Sector**).

During the review quarter, M3* increased by 1.8 per cent relative to growth of 1.4 per cent for the June 2009 quarter (see **Figure 2.4**). Within M3*, foreign currency deposits declined by 3.4 per cent, which was sharper than the reduction of 1.6 per cent recorded in the June 2009 quarter. However, the reduction during the review quarter was influenced by the appreciation in the value of the domestic currency as foreign currency deposits denominated in US dollars grew by 0.5 per cent (see **Foreign Exchange Market**). The marginal growth in deposits denominated in US dollars represented a deceleration relative to the previous two quarters. The build-up in foreign currency deposits was reflected in time deposits held by business firms. Demand and savings deposits declined sharply. The appreciating trend which characterized the foreign exchange market as well as the expectation that foreign currency supplies would remain adequate could have induced investors to reduce the rate of growth in their foreign currency holdings. In addition, improved investor confidence largely reflective of the IMF's approval of the country's performance under the Stand-by Arrangement would have also influenced investors to moderate the rate at which foreign currency deposits were accumulated in the quarter. At end-June 2010, the ratio of foreign currency deposits to total deposits was 29.8 per cent relative to the 31.4 per cent recorded at end-March 2010 and the 31.6 per cent at end-June 2009 (see **Figure 2.6**).

At end-June 2010, the money multiplier (M3J) was 3.94, relative to 3.82 at the end of the previous quarter and 3.89 at end-June 2009. The increase in the money multiplier relative to the previous quarter mainly reflected a reduction in the currency to deposit ratio (see **Table 2.5**). The decline in the currency to deposit ratio was as a consequence of the reduction in the demand for currency during the review quarter.

Figure 2.7

Quarterly Growth Rates of Private Sector Credit Denominated in Jamaica Dollars June 2006 to June 2010

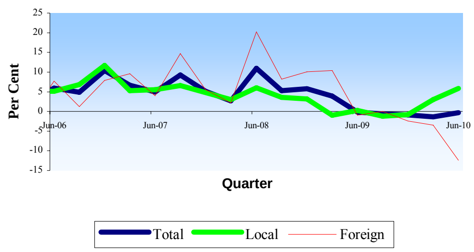


Table 2.6

Commercial Bank Distribution of Total Credit to the Private Sector J$ Million (Quarterly Flows)		Jun-09	Mar-10	Prov. Jun-10
	Total Private Sector Credit	**-319.8**	**-2780.2**	**780.2**
	Loans and Advances	-322.7	-2975.8	-656.6
less	Overseas Residents	-2.9	-24.3	-533.8
Add	Corporate Securities	-0.1	171.3	903.1

Table 2.7

Commercial Bank Distribution of Total Loans & Advances to the Private Sector (Flows J$M)	Jun-09	Mar-10	Jun-10
Agriculture & Fishing	122.5	423.8	341.9
Mining & Quarrying	-75.2	-10.7	-33.8
Manufacturing	191.7	-304.4	-707.9
Construction & Land Dev.	217.2	-2 946.6	3 060.4
Transport, Storage & Comm.	-146.5	1 771.8	-548.6
Tourism	-869.1	-1 345.1	-6 218.2
Distribution	632.4	-202.7	1 609.6
Professional & Other Services	185.1	971.5	-83.4
Personal	-817.5	-996.7	1 350.4
Electricity, Gas & Water	240.5	-287.2	1 140.0
Entertainment	-0.9	-25.2	-33.1
Overseas Residents	-2.9	-24.3	-533.8
TOTAL	**-322.7**	**-2 975.8**	**-656.6**

Private Sector Credit

The stock of private sector credit extended by commercial banks expanded by 0.4 per cent for the June 2010 quarter. This outturn compares to a projected expansion of 2.7 per cent as outlined in the economic programme. The marginal increase was solely reflected in higher holdings of corporate securities, predominantly by one bank as the stock of loans and advances declined. However, there was an increase in the stock of loans to ***Distribution, Electricity, Gas & Water, Agriculture*** *as well as* ***Personal Loans****. There was also a significant increase in* ***Construction & Land Development*** *influenced by a reclassification of US dollar loans from* ***Tourism****. Private sector loan quality, as measured by the ratio of past due loans to total private sector loans, deteriorated during the June quarter.*

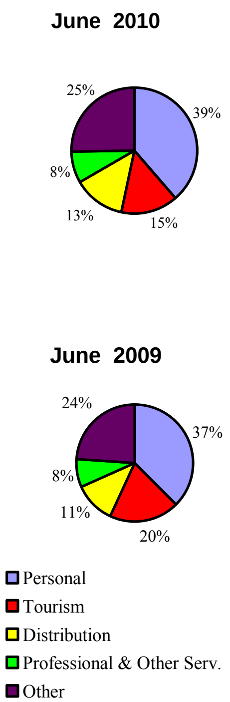
At end-June 2010, the stock of private sector credit was $216 443.6 million, representing an increase of 0.4 per cent for the review quarter (see **Figure 2.7**). This expansion compares to the projected growth of 2.7 per cent outlined in the economic programme. The marginal increase in private sector credit was solely reflected in increased holdings of corporate securities, as there was a reduction in loans and advances. There was a reduction of $656.6 million or 0.3 per cent in loans and advances during the review quarter, compared to a decline of 0.1 per cent in the June 2009 quarter (see **Table 2.6**). This was also the fifth consecutive quarter of contraction. The most significant decline were reflected in ***Tourism*** and ***Manufacturing*** (see **Table 2.7**). However, there was an increase in the stock of loans to ***Distribution***, ***Electricity, Gas & Water***, ***Agriculture*** as well as ***Personal Loans***. There was a notable increase in loans for ***Construction & Land Development,*** however, this was influenced by the reclassification of a US dollar loan from ***Tourism.***

There was a reduction of 16.2 per cent in ***Tourism*** in the review quarter representing the fifth consecutive quarter of decline. This decline was partly influenced by the reclassification of a US dollar loan to ***Construction & Land Development***. In addition, ***Tourism*** continued to be influenced by reduced investment in the sector given the impact of the global recession.

Table 2.8

Commercial Bank Distribution of Local Currency Loans & Advances to the Private Sector (Flows J$M)	Jun-09	Mar-10	Jun-10
Agriculture & Fishing	-336.5	373.9	653.5
Mining & Quarrying	109.8	-64.1	20.1
Manufacturing	-142.7	-95.8	-33.9
Construction & Land Dev.	270.8	180.2	-476.9
Transport, Storage & Comm.	76.1	1 773.0	5.1
Tourism	-428.9	-445.9	216.2
Distribution	1654.7	162.7	2 955.3
Professional & Other Services	236.5	867.9	339.7
Personal	-878.9	-556.0	1 748.5
Electricity, Gas & Water	-225.5	-164.5	1 800.7
Entertainment	-46.8	-28.6	-15.6
Overseas Residents	-26.8	-29.8	-27.8
TOTAL	**261.7**	**1 973.0**	**7 184.7**

Figure 2.8
Sectoral Distribution of Commercial Bank Loans & Advances to the Private Sector (Per Cent of Outstanding Stock)
June 2009 & June 2010



Agriculture and Fishing increased by 7.8 per cent for the June 2010 quarter. There were increases in credit to the sector in all three months of the quarter. The increase for the quarter follows two consecutive quarters of expansion and compares to an average growth rate of 9.2 per cent for the previous five June quarters.

There was a 5.9 per cent increase in ***Distribution*** which was predominantly granted by one large bank. ***Personal Loans*** increased by 1.6 per cent for the June 2010 quarter, reflected in expansions in all three months. The outturn for the quarter was the largest quarterly expansion since the December 2008 quarter and follows a decline of 1.2 per cent for the March 2010 quarter. Further, the outturn for the June 2010 quarter compares to average growth of 4.2 per cent for the last five June quarters. Within ***Personal Loans***, credit card receivables increased by 0.8 per cent for the review quarter relative to a decline of 1.6 per cent in the previous quarter. This increase was reflected in domestic currency credit card receivables. The stock of loans for the purchase of motor cars declined by 0.5 per cent and follows a reduction of 0.6 per cent in the previous quarter. The outturn for the review quarter was influenced by the continued decline in employment and income.

The stock of foreign currency-denominated loans for the June 2010 quarter declined by US$49.7 million or 4.6 per cent continuing the reduction observed since the December 2009 quarter. Most sectors contributed to this decline. Consequent on the decline in foreign currency loans as well as the appreciation in the exchange rate, the proportion of these loans to total loans declined to 35.3 per cent at end-June 2010 from 39.4 per cent at end-March 2010 and 42.5 per cent at end-June 2009.

Interest Rates

The overall weighted average lending rate declined by 45 basis points (bps) during the first two months of the June quarter, following an increase of 8 bps in the previous quarter. This decrease in the overall weighted average lending rate was reflected in reductions of 37 bps and 148 bps in the weighted average rates charged for private sector loans and public sector loans, predominantly loans to Local Government, respectively (see **Table 2.10**). The lower rate charged on private sector loans mainly reflected a decline in the weighted average lending rates

Table 2.9

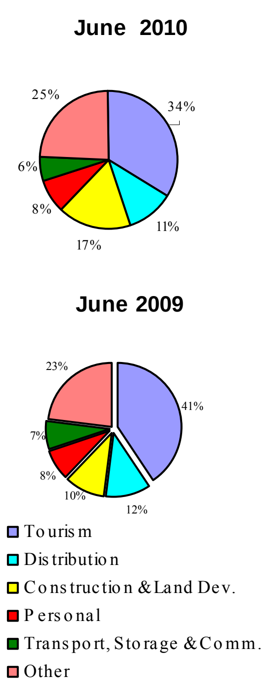
Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (Flows US $M)

	Jun-09	Mar-10	Jun-10
Agriculture & Fishing	5.1	5.2	-2.6
Mining & Quarrying	-2.1	-1.9	-0.6
Manufacturing	3.5	-10.1	-6.0
Construction & Land Development	-1.1	15.0	46.3
Transport, Storage & Comm.	-2.9	-25.6	-4.1
Electricity, Gas & Water	5.1	23.1	-5.8
Distribution	-12.1	-24.4	-10.9
Tourism	-6.9	-72.1	-59.3
Entertainment	0.5	0.5	-0.1
Professional & Other Services	-0.9	3.0	-2.0
Personal	0.3	-7.4	-1.5
Overseas Residents	0.0	-0.1	-3.0
TOTAL	**-11.3**	**-94.7**	**-49.7**

Figure 2.9

Sectoral Distribution of Foreign Currency Loans & Advances to the Private Sector (Per Cent of Outstanding Stock)

June 2009 & June 2010



for instalment credit and commercial loans, which declined by 43 bps and 66 bps, respectively. There was an increase of 11.5 bps in the interest rates for Central Government

Performance Indicators

Lending to the private sector accounted for 38.1 per cent of the commercial banks' total assets at end-June 2010. This was slightly higher than the ratio of 37.1 per cent at end-March 2010.

The quality of the private sector loan portfolio, measured by the ratio of past due loans (three months and over) to total private sector loans was 6.4 per cent at end-June 2010 compared with the ratio of 6.0 per cent at end-March 2010 and 4.2 at end-June 2009 (see **Figure 2.10**). There was also an increase in the ratio of past due loans (three months and over) to total loans to 5.6 per cent at end-June 2010 from 5.1 per cent at end-March 2010 and 3.6 per cent at end-June 2009.

Table 2.10

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type Per Cent	May-09	Mar-10	Prov. May-10
Overall	**15.89**	**16.47**	**16.02**
Public Sector	**11.89**	**12.25**	**10.77**
Local Govt.	10.66	11.78	9.34
Central Government	13.53	13.15	13.26
Private Sector	**16.50**	**17.22**	**16.85**
Instalment	20.64	21.48	21.06
Mortgage	9.01	8.11	7.95
Personal	23.16	24.00	24.06
Commercial	12.64	13.15	12.49

Figure 2.10
Commercial Banks' Past due Loans
(Three Months and over) to Total Loans
June 2008 to June 2010

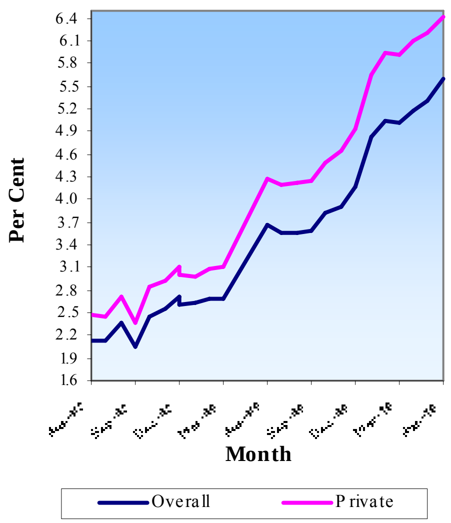


Table 2.11

Treasury Bill Auctions and Maturities April - June 2010				
Issue Date	**Tenor (days)**	**Avg. yield (%)**	**Amount Allotted (J$MN)**	**Amount Maturing (J$MN)**
30-Apr-10	91	9.97	400.0	400.0
30-Apr-10	182	9.99	400.0	400.0
21-May-10	28	9.95	400.0	
28-May-10	91	9.77	400.0	400.0
28-May-10	182	9.91	400.0	400.0
18-Jun-10	182	9.26	400.0	
25-Jun-10	28	8.98	400.0	400.0
25-Jun-10	91	8.52	400.0	400.0
TOTAL			**3 200.0**	**2 400.0**

Average yields on GOJ Treasury Bills continued to decline

Table 2.12

GOJ Public Domestic Debt Raising April - June 2010			
	Amount Allotted (J$MN)	**Amount Maturing (J$MN)**	**Net Issues (J$MN)**
Treasury Bills	3 200.0	2 400.0	800.0
Fixed Rate Benchmark Inv. Note	50 827.8	12 265.0	38 562.8
Fixed Rate Treasury Bd.		15 176.4	-15 176.4
TOTAL	**54 027.8**	**29 841.4**	**24 186.4**

The GOJ issued one new debt instrument and re-opened four existing GOJ debt instruments during the review quarter

Bond Market

During the June 2010 quarter, interest rates in the bond market continued to trend downwards in a context of the successful implementation of the Jamaica Debt Exchange (JDX), buoyant Jamaica Dollar supply conditions as well as the continued appreciation of the Jamaica Dollar. The downward trend in market-determined rates was reinforced by a positive near-term outlook for Jamaica's key economic variables as well as the Bank's 100 basis points (bps) reduction in the interest rate on its 30-day open market operation (OMO) instrument.

In a context of the favourable domestic developments which engendered improved confidence in Jamaica's fiscal sustainability, the yields on the global bonds continued to decline. Concurrently, the spread between GOJ global bonds and the Emerging Market Bond Index (EMBI+) also narrowed.

During the June 2010 quarter, there was a decline in the average yields on GOJ Treasury Bills. This represented the sixth consecutive quarter of decline. The average yields on the 90-day and 180-day Treasury Bills were 166 bps and 123 bps lower, relative to March 2010 (see **Table 2.11**). Consequently, at the end of the June 2010 quarter, the yield on the 90-day Treasury Bill was 55 bps below the 90-day equivalent yield on the Bank's 30-day OMO instrument. The decline in yields was largely influenced by the Bank's continued easing of monetary policy, improved inflation prospects for fiscal year (FY) 2010/11, the strengthening of the Jamaica Dollar, as well as buoyant Jamaica Dollar supply conditions during the review quarter. The reduction in Treasury Bill yields reflected a strong demand for relatively liquid assets as well as a decline in the cost of funds within the private repo market.

There was only one new primary issue of a GOJ debt instrument during the June quarter (see **Appendix, Tables 8A and 8B**). This was the Fixed Rate 12.0% Benchmark Investment (BMI) Note scheduled to mature in 2014 which replaced a similar maturing instrument.[7] Four other instruments issued under the JDX were re-opened at yields to maturity below initial coupons.[8] However, there continued to be a preference for shorter-term instruments to rebalance portfolios. Overall, there was a net issue of GOJ debt instruments of $24.2 billion during the review quarter, relative to a net issue of $5.3 billion in the March 2010 quarter (see **Table 2.12**).

[7] Hence, the number of BMI notes remained at twenty-five.

[8] The FR 12.0% BMI Note 2040 was re-opened on two occasions.

Table 2.13

Placements and Maturities in BOJ OMO Instruments				
	January - March 2010		April -June 2010	
	Maturities (J$MN)	Placements (J$MN)	Maturities (J$MN)	Placements (J$MN)
30-day	39 205.4	100 018.0	224 843.1	256 524.1
60-day	1 223.2	247.5	0.0	0.0
90-day	10 714.1	1 338.3	1 338.3	0.0
120-day	815.3	249.3	1 286.5	0.0
180-day	17 945.3	5 399.2	14 988.7	0.0
270-day	25.5	0.0	0.0	0.0
365-day	23 906.2	0.0	24 802.9	0.0
TOTAL	**96 990.8**	**107 252.3**	**267 259.5**	**256 524.1**

The interest rate on the 30-day OMO instrument was reduced twice during the review quarter to close at 9.0 per cent

Figure 2.11
Average Private Money Market Rates
April - June 2010

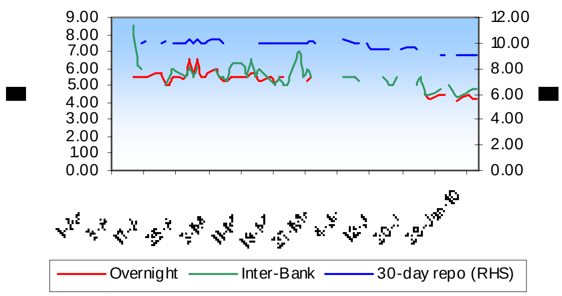
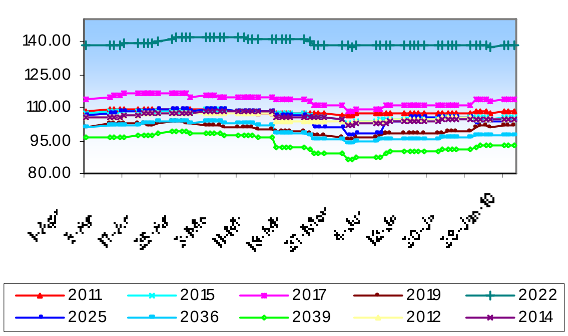


Figure 2.12
GOJ Global Bond Prices
April - June 2010



There was an overall net maturity of $10.7 billion in BOJ securities during the review quarter, compared to a net placement of $10.3 billion in the previous quarter (see **Table 2.13**).[9] Placements were only made on the 30-day instrument, as the longer term tenors were withdrawn from the market on the 12 January 2010. Consequent on improvements in key domestic economic indicators, the interest rate applicable to the Bank's 30-day OMO instrument was reduced on two occasions during the June quarter to 9.0 per cent. On 04 June and 17 June, the 30-day OMO rate was reduced by 50 bps in each instance. The rate on the Bank's overnight instrument remained at 0.5 per cent. This loosening of the Bank's monetary policy stance occurred in a context of improved inflation outlook.

Private money market rates generally declined during the review quarter. The overnight rate averaged 5.31 per cent during the June 2010 quarter, down from 7.01 per cent in the previous quarter (see **Figure 2.11**). The inter-bank and 30-day repo rates averaged 5.56 per cent and 9.48 per cent, respectively, down from 6.99 per cent and 10.47 per cent in the March 2010 quarter. The decline in rates occurred in a context of lower GOJ interest rates, a wider distribution of domestic liquidity within the financial sector as well as moderate activity within the domestic private repo market.

There was an overall improvement in the performance of GOJ global bonds during the June 2010 quarter (see **Figure 2.12**). Yields on GOJ global bonds closed the quarter within the range of 2.28 per cent to 9.16 per cent, relative to the range of 3.83 per cent to 8.95 per cent recorded at the end of the previous quarter.[10] Concurrently, the spread between the GOJ global bonds and the EMBI+ fell by 1.66 percentage points to 1.17 per cent relative to the end of the previous quarter. The spread between GOJ global bonds and US Treasury bonds also fell by 1.64 percentage points to 4.13 per cent. These outturns reflected improved confidence in Jamaica's fiscal sustainability, primarily emanating from the continued decline in interest rates following the success of the JDX, as well as the country's stated commitment to programme targets outlined within the IMF-SBA.

[9] This excludes the overnight instrument.

[10] Due to crime-related disturbances in West Kingston, yields increased to a range of 5.22 per cent to 9.88 per cent on 26 May 2010 but subsequently declined.

Figure 2.13
Quarterly Growth of the JSE Indices
June 2009 – June 2010

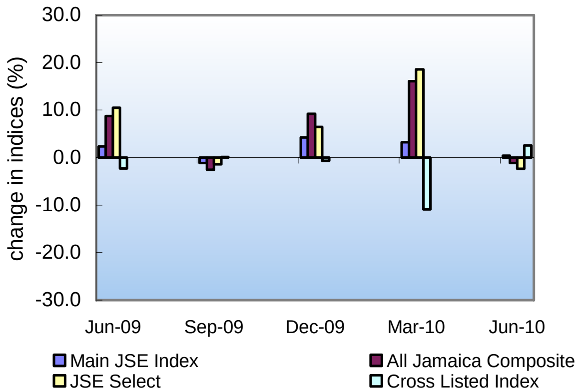


Figure 2.14
Quarterly Movements in Volumes & Values Traded June 2009 – June 2010

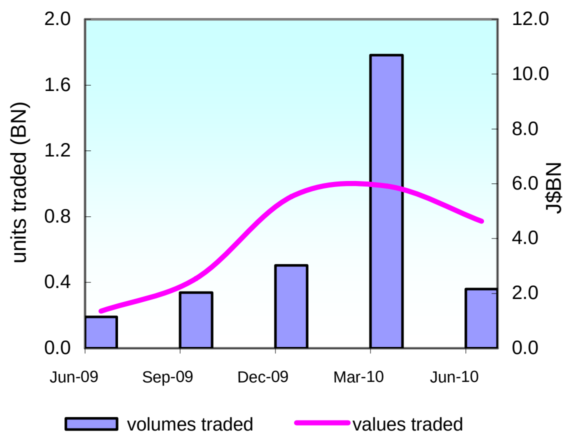
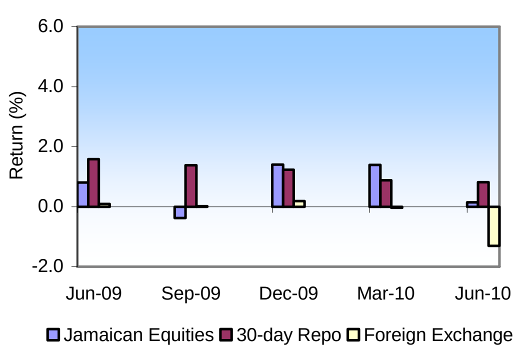


Figure 2.15
Average Monthly Returns from Equities, Foreign Currency and Fixed Income Investments



Stock Market

The Main Jamaica Stock Exchange (JSE) Index grew marginally by 0.4 per cent during the June 2010 quarter, despite lower rates on fixed income investments and continued appreciation in the domestic currency. This anaemic growth occurred in a context where several listed companies reported lower earnings during the June 2010 quarter. The lower earnings were associated with weak consumer demand and lower coupon payments on their GOJ debt holdings stemming from the Jamaica Debt Exchange (JDX) programme.

The Main JSE Index increased marginally by 0.4 per cent during the June 2010 quarter in spite of continued declines in market interest rates and appreciation of the Jamaica Dollar.[11] This outturn was 2.9 percentage points lower when compared to growth in the March 2010 quarter as investor sentiments weakened during the June 2010 quarter. The poor performance of the equities' market during the review period was also reflected in a decline in the other major indices with the exception of the Cross Listed Index (see **Figure 2.13**).[12]

Market activity for the review period declined sharply relative to the prior quarter. During the June 2010 quarter, the number of trades, volumes traded and values traded fell by 15.4 per cent, 64.7 per cent and 70.9 per cent, respectively (see **Figure 2.14).** The advance-to-decline ratio, an indicator of market momentum, deteriorated to 21:15 at end-June 2010 relative to 22:11 at the end of the previous quarter. Declining stocks mainly reflected those in the manufacturing and financial sectors and recorded average respective price declines of 6.1 per cent and 0.02 per cent, for the review quarter (see **Table 2.14**). Notably, stocks from the tourism and conglomerate categories accounted for the highest price appreciation among the top ten advancing stocks. On average, the tourism and conglomerate sectors recorded price gains of 11.6 per cent and 1.2 per cent, respectively, for the quarter (see **Table 2.15**).

The marginal growth in the Main JSE Index and the sharp reduction in trading activity were influenced by weakened investor sentiments towards equities. This

[11] During the quarter, monthly returns on equity investments, as reflected by growth in the Main JSE Index, averaged 0.1 per cent. This compares to average monthly returns of 0.8 per cent from money market securities and a capital depreciation of 1.3 per cent from holding foreign currency investments (see **Figure 2.15**)

[12] The All Jamaica and Select indices declined by 1.1 per cent and 2.3 per cent, respectively, during the quarter. However, the cross listed index grew 2.5 per cent and was influenced by stock price appreciation of First Caribbean International Bank and Guardian Holding Limited.

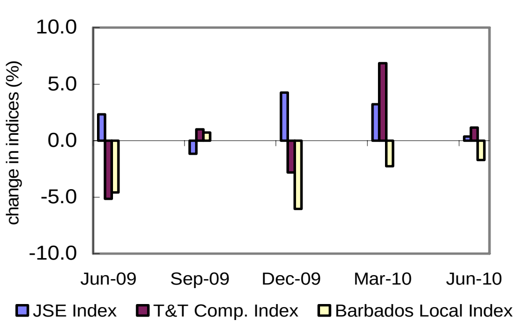
Table 2.14

Declining Stocks		
Companies	Price ($) as at June-10	Qtr. Change %
Manufacturing		
Caribbean Cement	3.7	-27.2
Seprod	21.6	-17.1
Trinidad Cement	53.0	-14.5
Salada Foods	10.0	-13.0
Finance		
ScotiaDBG	20.2	-10.3
Capital & Credit	3.7	-8.8
Scotia Group	21.0	-8.3
Conglomerate		
Jamaica Producers	20.0	-22.3
Communication		
Gleaner Company	1.4	-13.8
Other		
Palace Amusement	52.0	-13.3

Table 2.15

Advancing Stocks		
Companies	Price ($) as at June-10	Qtr. Change %
Finance		
First Jamaica Inv.	39.7	13.5
National Commercial Bank	18.0	9.0
Jamaica Money Market	4.2	5.0
Conglomerate		
Lascelles de Mercado	300.0	19.5
Pan Jam Investments	48.0	8.2
Tourism		
Montego Freeport	2.0	18.1
Pegasus Hotels	17.5	16.7
Manufacturing		
Berger Paints	2.9	8.2
Jamaica Briolers Group	7.0	6.1
Other		
Kingston Properties	4.2	5.0

Figure 2.16
Quarterly Growth of Regional Indices
June 2009 – June 2010



occurred in light of reductions in corporate earnings of several listed companies, reflecting the adverse impact of the current recession on consumer demand and the acceptance of lower coupon payments on their GOJ debt holdings as part of the JDX programme.

With regards to recent developments on the JSE during the quarter, Blue Power Group Limited, a soap manufacturer and hardware distributor, became the second company to list on the Junior Stock Exchange. The stock was listed at a share price of $3.89 and was oversubscribed by J$34.1 million within the first day of the offer.

Regionally, the two other main stock market indices in the Caribbean region recorded mixed results during the June 2010 quarter. The Trinidad & Tobago Composite Index grew incrementally by 1.2 per cent compared to growth of 6.9 per cent for the March 2010 quarter and reflected the generally uncertain economic environment. For Barbados the Local Index fell by 1.7 per cent, representing a slower rate of contraction relative to a decline of 2.3 per cent during the March 2010 quarter (see **Figure 2.16**).

Figure 2.17
Percentage Change in Weighted Average Selling Rate (e.o.p.) (J$1.00= US$)

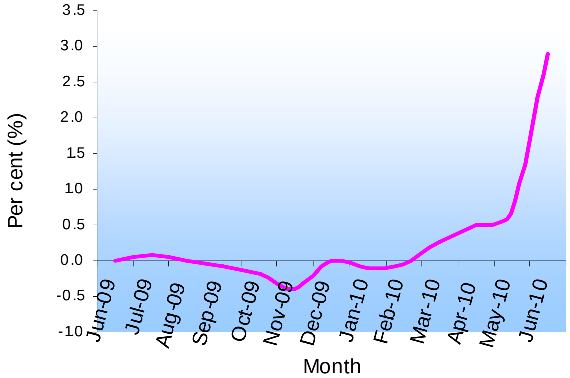
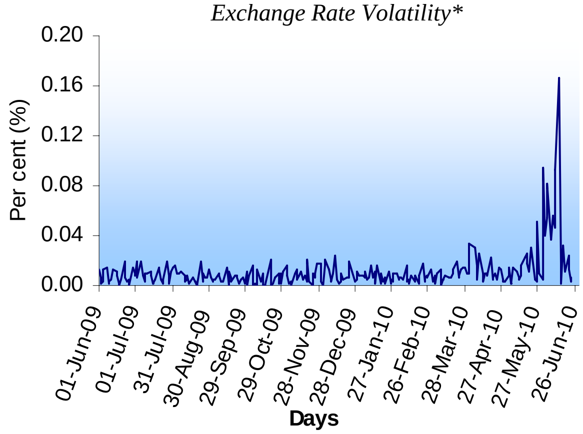
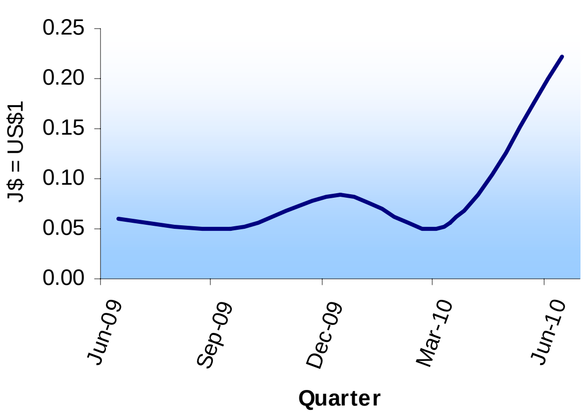


Figure 2.18
*Exchange Rate Volatility**



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

Figure 2.19
Exchange Rate Trading Range



Foreign Exchange Market

*The pace of appreciation of the exchange rate increased during the review quarter relative to the preceding quarter (see **Figure 2.17**). This was primarily influenced by heightened investor preference for Jamaica Dollar denominated instruments resulting in increased private capital flows. Improved investor confidence occurred against the backdrop of the success of the Jamaica Debt Exchange (JDX) and the country's achievement of the quantitative performance targets for end-March 2010 outlined under the IMF Stand-By Arrangement (IMF-SBA). In the context of increased private capital flows, the NIR at end-June 2010 increased by US$43.9 million relative to the stock at end-March 2010.*

The weighted average selling rate (WASR) decreased to J$86.02 = US$1.00 at end-June 2010 from J$89.51 = US$1.00 at end-March 2010 representing an appreciation of 4.1 per cent. This was the sharpest quarterly appreciation since the June 1996 quarter and compares favourably with an average depreciation of 0.8 per cent in the previous five June quarters. The exchange rate appreciated throughout the quarter, with the strongest movement occurring in June. The exchange rate appreciated by 0.5 per cent (J$0.43) in April, 0.7 per cent (J$0.59) in May and 2.9 per cent (J$2.46) in June (see **Figure 2.17**). For the calendar year to June, the value of the Jamaica Dollar increased (appreciated) by 4.2 per cent vis-à-vis the US dollar. This compares with a decline (depreciation) of 9.7 per cent in the corresponding period of 2009.

In the context of more volatile conditions, particularly in June, the average weekly trading range for the selling rate widened to J$0.22 from J$0.06 in the March 2010 quarter (see **Figures 1.23** and **1.24**).[13] Similarly, the average bid-ask spread, expressed as a percentage of the buying rate, widened to 0.56 per cent from 0.45 per cent (see **Figure 2.20**).

The acceleration in the pace of appreciation during the quarter primarily resulted from increased investor preference for Jamaica Dollar denominated instruments, reflected in continued buoyancy in net private capital inflows. The Bank estimates that net private capital inflows increased by US$373.1

[13] The trading range for the exchange rate is an indicator of risk or uncertainty. It is the difference between the high and low quotes for the sale of US dollars over a particular period. A narrowing of the spread is an indicator of more stable conditions in the foreign exchange market.

Figure 2.20
Foreign Exchange Spread as a Percentage of the Buying Rate

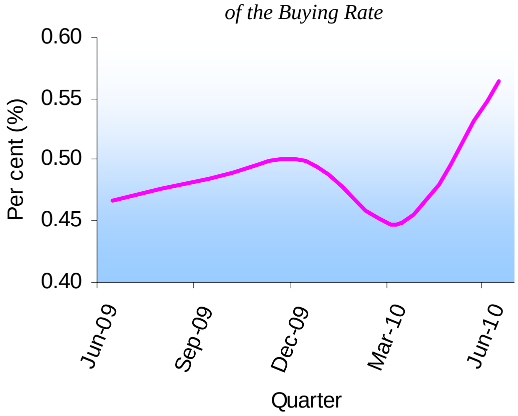


Table 2.16

Foreign Exchange Cash Flows*					
	US$MN			Change Relative to Previous	
	2009	2010			
	Apr. - June	Jan. - Mar.	Apr. - June	Quarter	Year
Net Current Inflows	-269.1	-79.4	-152.2	-72.9	116.9
Current Inflows	1 134.2	1 139.1	1 173.6	34.5	39.5
Current Outflows	1 403.3	1 218.4	1 325.8	107.4	-77.5
Net Private Capital Inflows	381.1	6.1	379.3	373.1	-1.9
Balance	112.0	-73.2	227.0	300.3	115.1

* BOJ estimates of cash flows within the private domestic economy.

Table 2.17

Net International Reserves (US$MN)		
Month	**Stock**	**Change**
Jan – 10	1 566.0	-163.3
Feb – 10	1 559.7	-6.3
Mar – 10	1 751.9	192.2
Apr – 10	1 736.2	-15.7
May – 10	1 675.6	-60.6
Jun - 10	1 795.8	120.2

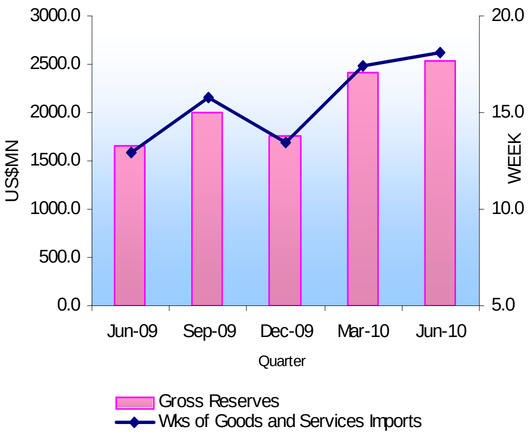
million during the quarter, the impact of which was more than sufficient to offset an estimated US$72.9 million increase in the net demand for current account transactions relative to the March 2010 quarter (see **Table 2.16**). Increased private capital flows followed the approval of the IMF-SBA and the success of the JDX in the previous quarter. Improved investor confidence was also influenced by the favourable inflation outlook and the achievement of the quantitative performance targets and structural benchmarks outlined under the IMF-SBA for end-March (see **Inflation** and **Money & Credit**). In this context, authorized dealers sold US$172.7 million from their foreign currency positions for the quarter relative to a build up of US$48.8 million for the March 2010 quarter.

The expansion in net demand for current account transactions for the quarter was associated with an estimated US$107.4 million increase in gross outflows, mainly reflecting higher payments for fuel imports (see **Table 2.16**). Foreign currency supplies to the market, however, increased by US$34.5 million reflecting higher inflows from non-traditional exports and remittances. Foreign currency cash inflows from these sources were estimated to have increased by US$54.2 million and US$63.6 million respectively, when compared with the previous quarter. This was, however, partially offset by lower earnings from tourism due to travel related disruptions associated with the impact of the volcanic ash cloud on air travel in Europe, and the social disturbances in Kingston during the quarter.

Consistent with the increase in demand for current account transactions during the quarter, average per diem sales by the system (authorized dealers and cambios) amounted to US$27.3 million compared to US$23.5 million in the March 2010 quarter. Average daily purchases marginally declined to US$25.1 million from US$26.9 million in the previous quarter.

To moderate the volatility in the exchange rate in June, the Bank purchased US$53.9 million (net) compared with sales of US$175.2 million (net) in the March 2010 quarter. Approximately US$55.2 million (net) was surrendered by authorised dealers and cambios through the foreign exchange surrender facility for public sector entities (PSE) compared to surrenders of US$19.8 million (net), under this facility, in the previous quarter. In this context, the NIR stock as at end-June 2010 amounted to US$1 795.8 million (see **Table 2.17**). This was US$43.9 million higher than the outturn for the previous quarter and outperformed the target under the IMF-SBA. The adjusted NIR

Figure 2.21
Gross Reserves and Weeks of Goods and Services Imports



outturn using the programme calculations was US$1 759.3 million, US$363.3 million higher than the IMF-SBA target.[14] The Bank's gross reserves at end-June 2010 amounted to US$2 526.7 million representing 19.7 weeks of projected goods and services imports (see **Figure 2.21**). This compares favourably with the international benchmark of 12.0 weeks. Notably, gross reserves were buoyed by the disbursement of SDR 63.7 million, equivalent to US$93.9 million, from the IMF under the SBA on 23 June 2010. Additional flows included the Bank's purchase from the government of proceeds of a loan of US$33.3 million from the Caribbean Development Bank (CDB) and a US$31.3 million grant from the European Union.

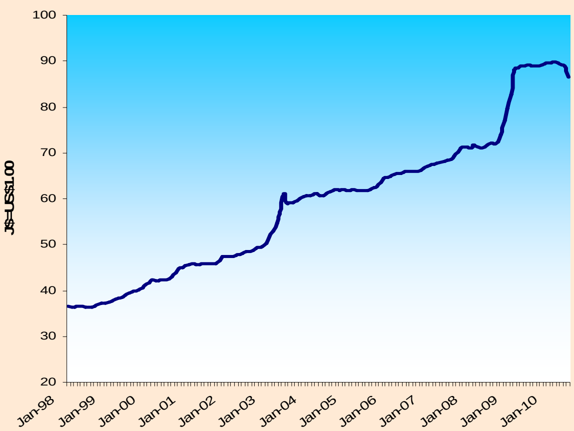
[14] The difference in the adjusted NIR relative to the actual outturn is due to the exchange rate used in the programme calculations as outlined in the SBA.

Box 1: Exchange Rates and External Price Competitiveness

Introduction

In the June 2010 quarter, the value of the Jamaica Dollar appreciated by 4.1 per cent, representing the largest quarterly increase since the June 1996 quarter. This followed a 10.2 per cent depreciation in 2009, most of which occurred in the first quarter (see **Figure 1**). The recent appreciation of the exchange rate has raised questions about Jamaica's external competitiveness. This box outlines the factors underlying the recent appreciation and assesses the impact of changes in the exchange rate on external competitiveness in the Jamaican economy.

Figure 1
Weighted Average Selling Rate
J$=US$1.00



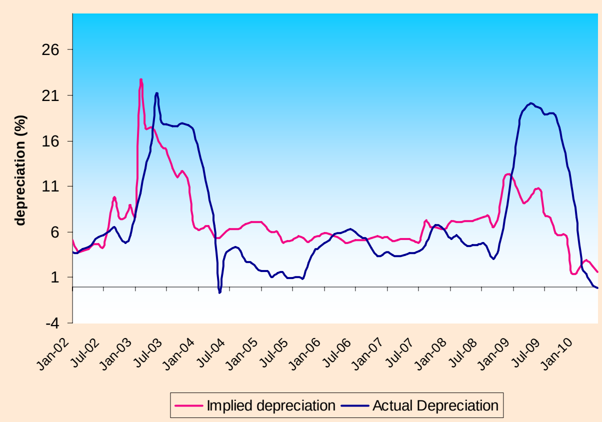
Factors affecting recent movements in the Exchange Rate

The recent trends in the exchange rate were influenced by economic developments both locally and abroad. The success of the recent Jamaica Debt Exchange (JDX) and the achievement of the March 2010 targets under the IMF-SBA led to a strengthening of investor confidence. These developments resulted in increased inflows into the foreign exchange market, concurrent with relatively low demand. The increased inflows largely emanated from an unwinding of long positions by authorised dealers. This was in a context where some institutions had built up balances during the period of uncertainty in 2008 and 2009 due to the effects of the global crisis. With the improving economic outlook, these holdings declined to US$180.0 million by end-June 2010, from US$331.0 million at end-March 2010.

In addition, the appreciation was influenced by relatively attractive yields on domestic instruments. This is in a context where global interest rates were at historic lows. The appreciation also reflected some correction to the sharp depreciation which occurred in FY2008/09. An analysis using uncovered interest parity (UIP) illustrated in Figure 2 revealed a significant deviation of implied and actual depreciation in 2008 due to the global crisis, when the level of actual depreciation overshot the implied depreciation considerably. Given the size of the deviation, some level of correction should be anticipated in the opposite direction. This behaviour of the exchange rate is very understandable as the market discovers its new level following the sharp change in expectations.[15]

Figure 2

Twelve-month Depreciation: Implied vs. Actual



Measures of External Competitiveness

[15] For more about overshooting exchange rate please see Dornbusch (1976) Expectation and Exchange Rate Dynamics, Journal of Political Economy, 84 (6), pp. 1161-76

A variety of measures are used to gauge external competitiveness. These are usually classified by either price or non-price factors. Non-price factors tend to be structural and are therefore only partially quantifiable, while price factors are easier to quantify. The real effective exchange rate (REER), which is based on relative prices, is the most frequently used indicator of external competitiveness. Other measures include the relative profitability of producing goods and services and the ratio of the trade balance to total trade. However, some of these measures suffer from the lack of availability of consistent and timely data.[16]

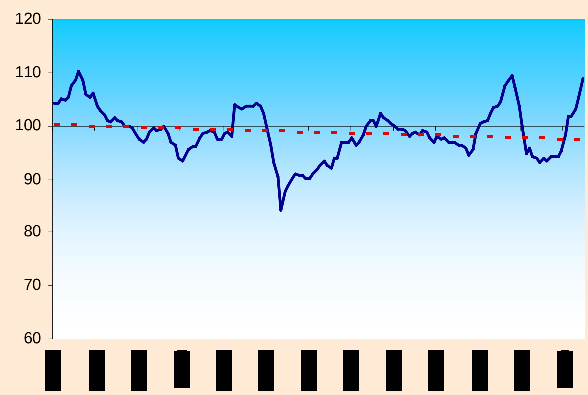
The REER is the trade weighted nominal effective exchange rate (NEER) deflated by an aggregate relative price index (RPI). There are various measures of the REER which are distinguished by what variables are used as indicators of price or cost such as: (1) the consumer price index (CPI), (2) the GDP deflator, (3) unit labour costs in the manufacturing sector and (4) the prices of tradables and non-tradables among others. The CPI-based REER is the most popular indicator of competitiveness given the simplicity involved in its calculation and the ease of acquiring comparative data.

An improvement (worsening) in competitiveness, as measured by a decline (rise) in the REER, will result from a depreciation (appreciation) in the NEER or a decline (rise) in relative prices. Depreciation (appreciation) in the NEER will result if the value of the domestic currency declines (rises) vis-à-vis the US dollar, or if the currencies of the country's main trading partners appreciate (depreciate) against the US dollar. Similarly, the RPI will decline (rise) if the rate of inflation for the domestic economy is below (above) that of the country's main trading partners.

[16] For more information on measures of competitiveness, see Henry, Chandar (2001), "Measuring Competitiveness in the Jamaican Economy". Paper is available on the Bank's website.

The assessment of whether there has been a gain or loss in competitiveness using the REER is very dependent on the starting point and the period of the analysis. For example, the REER indicates that there has been a general improvement in external competitiveness over the 12-year period from 1998 to 2009. However, assessments of competitiveness over various sub-periods may reflect a different understanding of trends in competitiveness. For example, there was a loss in competitiveness for the period 2005 to 2008 while there was a gain for the period 2005 to 2009. This clearly demonstrates that over time there is a tendency for mean reversion in the REER, which speaks to the dilemma of depreciation followed by inflation or, in other words, gains offset by losses (see **Figure 3**).

Figure 3
Real Effective Exchange Rate
January 2006=100



The Impact of Changes in the Exchange Rate on Competitiveness

The recent episode of appreciation in the exchange rate has stimulated debate about Jamaica's external competitiveness. A depreciation in the currency will make a country's exports relatively cheaper to foreigners and at the same time make imports more expensive. The result of this is that the country will improve its current account and its competitiveness, other things being equal. This is particularly true if the demand for the country's exports and imports conform to the Marshall-Lerner Condition.[17]

In a small open economy such as Jamaica's, the productive process including that of the export sector is heavily reliant on imported factors of production, for example, energy. In this case, an exporting entity which faces a depreciation and wants to increase production will be faced with higher cost of inputs. In general, the depreciation in the exchange rate will result in an increase in inflation which is inimical to competitiveness. This could engender further depreciation to reverse this loss in competitiveness caused by rising inflation. Such a situation can become untenable as the economy is caught in a depreciation/inflation spiral resulting in price instability which can adversely affect investor confidence, business planning, economic welfare and fiscal performance.

Over the 12-year period from 1998 to 2009, there was an average annual depreciation of 8.1 per cent in the exchange rate. During that period, exports grew by 0.5 per cent per annum while imports rose by 5.6 per cent. This showed that the depreciation in the exchange rate did not result in any noticeable improvement in the country's competitiveness or trade balance. This assertion has been supported by research work in the area of the exchange rate and competitiveness in the Jamaican economy. For example, Henry and Longmore (2003) found that the REER does not play a significant role in the determination of the major components of the current account. This result suggests that policy aimed at correcting the current account deficit through real exchange rate changes may be ineffective.[18]

To address the issue of competitiveness, it may be necessary to deal with 'structural competitiveness' rather than 'price competitiveness'. In this regard, reforms to improve the business environment will enhance productivity and allocate resources to more dynamic sectors, resulting in sustained improvements in competitiveness. For example, recent data on labour productivity in Jamaica revealed that over the period 1973 to 2007, labour productivity declined by 1.3 per cent per annum.[19] In particular, over the 5-year period, 2003 to 2007, labour productivity of a Jamaican worker declined by 1.8 per cent per annum, on average, compared to an increase of over 2.0 per cent per annum in Latin America and the Caribbean.

In summary, the recent appreciation in the exchange rate is consistent with the positive developments within the Jamaican economy since February 2010. These occurrences led to improved confidence and a reversal of the sharp depreciation which occurred in 2008/09.

The Bank believes that any extreme price movements, in either direction, can adversely affect the economy and competitiveness. In this regard, the Bank will continue to foster orderly movement in the exchange rate which is in keeping with its aim of price stability.

[17] The Marshall Lerner condition states that, for a currency devaluation to have a positive impact on a country's trade balance, the sum of price elasticity of exports and imports (in absolute value) must be greater than 1.

[18] Henry C. and Longmore R., (2003). Current Account Dynamics and the Real Effective Exchange Rate: The Jamaican Experience, Bank of Jamaica. Paper is available on the Bank's website

[19] Jamaica Productivity Centre, The Productivity Pulse, Vol.1 No.1, January 2010

Box 2: Adequacy of BOJ's Gross International Reserves

Introduction

Interest in the adequacy of BOJ's foreign currency international reserves has been heightened by the country's signing of a Stand-By-Arrangement with the International Monetary Fund (IMF) in February 2010. This arrangement resulted in significant loan inflows from multilateral financial institutions. While an adequate level of reserves engenders confidence by providing sufficient cushion in the event of a balance of payments crisis, an excessive build-up could have an adverse impact on BOJ's profitability and ultimately the national debt.[20] This box discusses the adequacy of the gross international reserves of the Bank.

The IMF (1953) noted that the international reserves of a country are not adequate until the public, including the international community, thinks they are adequate. An adequate level of reserves is one that satisfies some minimum desired precautionary balance, given that higher levels will be relatively more costly for the economy. The cost of holding the minimum precautionary stock is regarded as the country's "insurance premium".

Central banks consider a range of factors when determining an appropriate level of international reserves. Countries that employ a fixed exchange rate regime or operate a managed float require some amount of international reserve buffer to ensure that the central bank can either defend the prevailing exchange rate or intervene in the foreign exchange market as the need arises. A reserve buffer is also necessary in underpinning confidence in the ability of the authorities to discharge their external obligations, particularly in situations where access to external borrowing is curtailed or very expensive.

The holding of international reserves, on the other hand, can be costly. In the context of a managed float or fixed exchange rate regime, the boost to the domestic money supply from overall reserve accumulation may be sterilised by the central bank. If the interest rates on the central bank's liabilities are higher than the rates at which the international reserves are invested, this sterilisation will be costly for the authorities. For this reason, excessive accumulation of international reserves is often regarded negatively.

Indicators of "Adequate International Reserves"

Three main variables have been commonly identified in the literature as indicators of reserve adequacy. These are, the reserves to imports ratio, the ratio of gross international reserves to short-term external debt (the RSTED ratio) and the ratio of gross international reserves to some measure of broad money (the RM ratio).

The gross international reserves to imports ratio (the import cover criterion (ICC)) utilizes a reserve coverage benchmark of 12 weeks of projected imported goods and services. Twelve weeks of reserve cover is close to the mean and the median of the level of reserves held by IMF member countries (IMF 2000).

With respect to the RSTED ratio, this seeks to identify a level of international reserves that would be sufficient to meet foreign debt payments without the need for new borrowing for one year. The RSTED ratio is often referred to as an indicator of potential external drain (PED). While there is no stipulated benchmark, larger RSTED ratios imply that the country is less vulnerable to external financing shocks. Consideration of the specific circumstances of a country will point to a more appropriate ratio. These circumstances include the de-facto exchange rate regime in operation, the level of the external debt as well as political and institutional factors that can inhibit or facilitate access to financial markets.

[20] At end-June 2010 the Bank's gross reserves amounted to US$2 526.7 million. This represented 19.7 weeks of projected goods and services imports, well above the international benchmark of 12 weeks.

The RM ratio, on the other hand, considers the sources of potential internal drain (PID) i.e. potential capital flight by residents. The RM ratio gauges the ability of the country to finance capital flight from the domestic currency without destabilising the financial system. In this regard, while there is no stipulated benchmark, the lower the RM ratio, the more vulnerable a country is to destabilising capital flight.

These measures of reserve adequacy gained increased attention and scrutiny in the aftermath of the Asian financial crisis in the late 1990's. The view emerged that, in contrast to the potential for destabilising shocks to the current account, potential threats to international reserves were more likely to ensue from sudden shifts in capital flows. In this regard, following the work of Wijnholds and Kapteyn (2001), some analysts use the above indicators to create a composite benchmark for reserve adequacy. This composite indicator, known as the potential for internal and external drain (PIED), assumes the need to repay external debt as well as make sufficient provision for capital flight.

Computing the PIED for Jamaica

Starting from a minimum of full coverage for short-term external debt, the composite is created by adding to this an estimate of the potential for capital outflow. For the latter indicator, broad money (M4*) is used as a measure of the money stock. This measure most closely captures the risk of capital flight from both local and foreign currency liabilities of the banking sector. Wijnholds and Kapteyn (2001) in their assessment of 21 emerging market economies suggested that between 10.0 per cent – 20.0 per cent of the money stock is an appropriate estimate of the proportion that can be quickly mobilised against international reserves. For Jamaica, the proportion selected was 15.0 per cent, which is the average of the above range.

The final element of the benchmark involves recognizing that if a country has good economic, financial and political fundamentals, it runs a smaller risk of residents "voting with their money", than for countries where the potential for instability is large. For this measure of risk, similar to Wijnholds and Kapteyn (2001), the Economist Intelligence Unit's (EIU) country risk assessment was used. The country risk index was calculated by taking a simple average of the EIU's sovereign, currency and banking sector risk scores for Jamaica as at June 2010. The risk index ranges from 0 to 1 with 0 being the least risky while 1 is the most risky. Based on this calculation, Jamaica's country risk index was 0.69 as at June 2010.

The composite indicator is, therefore, defined as

$$PIED = \alpha STED + \lambda \beta M4^{*}$$

where PIED is the measure of the adequate international reserves, α is the stipulated benchmark for the STED (assuming 1 implies that the international reserves should be able to cover 1 year of debt payment, 1.25 implies cover for a year and three months etc.), STED is the measure of short-term maturing external debt, λ is the measure of country risk and β is the proportion of the money stock that can be quickly mobilised against the international reserves. For this assessment, it is assumed that the private sector will always be able to roll its debt, so that STED is the public sector maturing debt for the succeeding 12 months.

Jamaica's Reserve Adequacy based on PIED and ICC

Table 1 presents a comparative assessment of Jamaica's reserve adequacy between FY2006/07 and FY2010/11, using both the import cover criterion (ICC) and the composite index of "potential internal and external drain" (PIED).[21]

The results indicate that based on the two measures, the stock of international reserves has been adequate over the period FY2006/07 to FY2009/10 and is expected to remain more than sufficient for FY2010/11. Notably, the forecast of

[21] Reserve adequacy for the stock at end-March 2011 is assessed in the context of the Bank's most recent programme projections for the Balance of Payments, the monetary aggregates and other macroeconomic variables.

gross international reserves at end-March 2011 of US$2 486.9 million exceeds the PIED adequate reserve benchmark by 37.5 per cent (US$678.7 million). The gross international reserves also exceed the ICC benchmark by 42.4 per cent (US$740.2 million).

Is the Current Reserve Position Excessive?

A stress test was carried out that assumes a deterioration in α and β due to a fiscal shock such that access to external financing becomes more difficult. Given the fiscal shock, the benchmark RSTED ratio (α) is assumed to move to 1.3, relative to the 1.0 assumed in the minimum benchmark discussed above. This increase in the benchmark RSTED ratio reflects an extreme shock given that the baseline assumption of one year of reserve coverage is already significant. In addition, β would likely increase to the upper end of the 0.10 per cent - 0.20 per cent band.

In the event of a shock, the level of adequate international reserves for FY2010/11 moves from approximately US$1 808.2 million (PIED) to US$2 298.5 million (PIED stress test). This implies that the forecast gross international reserves would be 8.2 per cent (US$188.4 million) higher than the adequate international reserve level (see **Table 1**). Given the country's susceptibility to adverse weather, economic and commodity price shocks, there is the need to hold additional "insurance" above the benchmark. In this context, therefore, the recent gross international reserve accumulation may not be excessive.

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Table 1

Measures of Reserve Adequacy for Jamaica

	2006/07	2007/08	2008/09	2009/10	2010/11
					Forecast
(a) *Gross Reserves (US$MN)*	2613.6	2105.9	1663.4	2414.4	2486.9
ICC	2072.9	2091.1	1560.1	1684.0	1746.7
PIED (d, f)	1711.2	1778.4	1572.2	1578.1	1808.2
PIED Stress Test	2177.3	2261.2	1998.4	2003.9	2298.5
Deviation of Gross Reserves from:					
ICC	540.7	14.8	103.3	730.4	740.2
(% deviation of actual from ICC)	26.1	0.7	6.6	43.4	42.4
(% GDP)	4.4	0.1	0.8	5.9	5.6
PIED	902.5	327.6	91.3	836.3	678.7
(% deviation of actual from PIED)	52.7	18.4	5.8	53.0	37.5
(% GDP)	7.4	2.5	0.7	6.7	5.2
PIED Stress Test	436.3	-155.3	-334.9	410.5	188.4
(% deviation of actual from PIED Stress Test)	20.0	-6.9	-16.8	20.5	8.2
(% GDP)	3.6	-1.2	-2.5	3.3	1.4
Memo					
(b) Gross Reserves to Short-Term Debt (RSTED) (a/d)	205.4	165.5	148.8	219.2	193.4
(c) Gross Reserves to Broad Money (RM ratio) (a/e)	57.3	43.1	37.9	52.4	49.3
(d) Debt Service (Includes US$ Domestic Debt) (US$MN)	1272.2	1272.2	1272.2	1117.7	1101.6
(e) Broad Money (Includes US$ Deposits) (US$MN)	4558.4	4890.1	4391.4	4604.0	5044.0
(f) Imported Goods and Services (US$MN)	7303.5	8982.8	9061.6	6760.6	7297.5

Key

ICC: Import Cover Criterion

PIED: Potential for Internal and External Drain

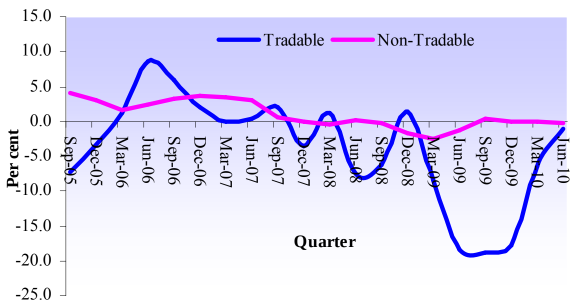
3. Real Sector Developments

*Real Gross Domestic Product is estimated to have declined within the range of 0.0 per cent to 1.0 per cent in the June 2010 quarter. This estimate reflects the continued deceleration in the rate of decline in economic activity since the September 2009 quarter. The slower pace of economic contraction primarily reflected resumption of growth in **Mining & Quarrying** as well as an expansion in **Transport, Storage & Communication**. Economic activity continued to be constrained by weak aggregate demand, evidenced by declines in all components of aggregate spending, with the exception of external demand.*

Figure3.1

GDP Growth : Tradables vs. Non-Tradables Industries

(12-Month Change)



The pace of economic decline continued to moderate in the June quarter.

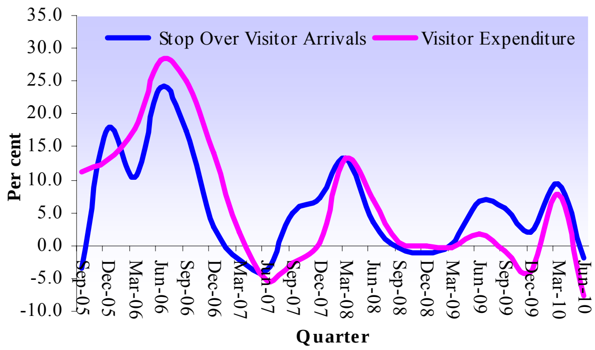
Aggregate Supply

The pace of economic contraction is estimated to have decelerated in the review quarter, with GDP declining within the range of 0.0 per cent to 1.0 per cent. The performance of the economy reflected slower rates of decline within the tradable and non-tradable industries (see **Figure 3.1**). During the review quarter domestic demand remained suppressed as a result of increased domestic unemployment and lower real income.

Manufacture, Construction and ***Finance & Insurance Services*** as well as ***Wholesale & Retail Trad***e, ***Hotels & Restaurants*** and ***Agriculture Forestry & Fishing*** were the main industries that were estimated to have contracted in the review quarter. Moderate growth was, however, estimated for ***Mining & Quarrying*** along with a marginal expansion in ***Transport, Storage & Communication.***

Manufacture continued to be one of the main industries that have been adversely affected by the world economic downturn. This is against the background of relatively weak external and domestic demand as well as economic uncertainty**.** However, for the review quarter, the rate of decline in ***Manufacture*** was estimated to have slowed due primarily to an estimated marginal growth in *Other Manufacturing*, which was offset by an estimated contraction in *Food & Beverages*. The marginal growth in *Other Manufacturing* mainly reflected higher levels of petroleum production, which was partially offset by contraction in chemical products, due to the closure of two plants. The fallout in *Food & Beverages* partly reflected reduced domestic demand for alcoholic beverages following the increase in the special consumption tax on spirits in May 2009.

Figure 3.2
Total Stopover Visitor Arrivals & Visitor Expenditure
(12-Month Change)



Source: Jamaica Tourist Board

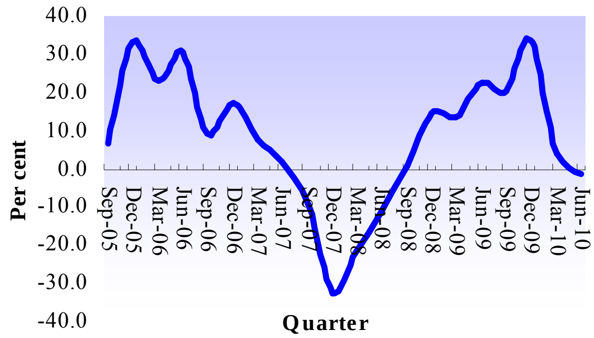
Finance & Insurance Services was one of the few industries that remained resilient throughout the global financial crisis. However, the performance of firms in the industry was adversely affected by their participation in the Jamaica Debt Exchange (JDX) in February 2010. Accordingly, the industry recorded a decline of 3.6 per cent in the March 2010 quarter, which continued into the review period, albeit at a reduced pace. This estimate primarily reflects the combined impact of decreased net interest income arising from the JDX, foreign exchange losses resulting from the appreciation of the Jamaica Dollar and reduced income from commissions.

Following four consecutive quarters of growth averaging 4.1 per cent, ***Hotels & Restaurants*** was estimated to have contracted in the review quarter. The contraction in *Hotel* was inferred from decreases of 1.5 per cent and 7.6 per cent, respectively, in stop-over visitor arrivals and visitor expenditure (see **Figure 3.2**). Declines in stop-over arrivals partly reflected the adverse impact of cancellation of flights from Europe due to volcanic ash clouds covering European skies. Additionally, negative travel advisories to Jamaica by the United States, United Kingdom and Canada following the disturbances in West Kingston adversely affected tourist arrivals[22]. Arrivals were also affected by the celebration of the Easter Holidays in the March 2010 quarter, one quarter earlier than its celebration in 2009. The fallout in *Restaurants* continued to reflect lower real income and job uncertainty, which was compounded, during the review quarter, by the imposition of the state of emergency.

After six consecutive quarters of growth, ***Agriculture, Forestry & Fishing*** is estimated to have declined marginally during the review quarter. The contraction in the industry was influenced by drought conditions in the first quarter of 2010 which impacted output in the review period. The unfavourable weather condition overshadowed the benefits of the Government's Production and Productivity Programme, which had helped to ameliorate the effects of the dry conditions on output. Accordingly, domestic production declined by approximately 1.5 per cent, following average growth of 20.1 per cent over the preceding four quarters of 2009 (see **Figure 3.3**). Production for the export market also declined, primarily reflecting reductions of 25.4 per cent, 65.2 per cent and 17.2 per

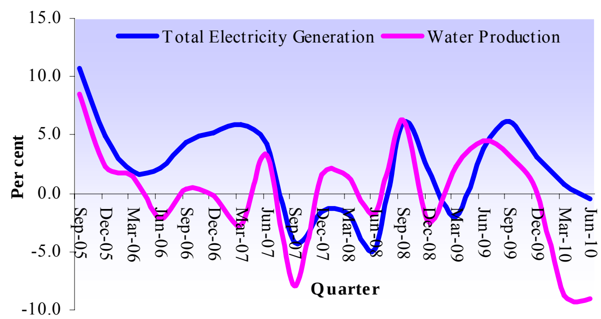
[22] During the week of May 24th, 2010, a limited state of emergency was imposed in the parishes of Kingston and St. Andrew in response to civil disturbances.

Figure 3.3
Domestic Crops
(12-Month Change)



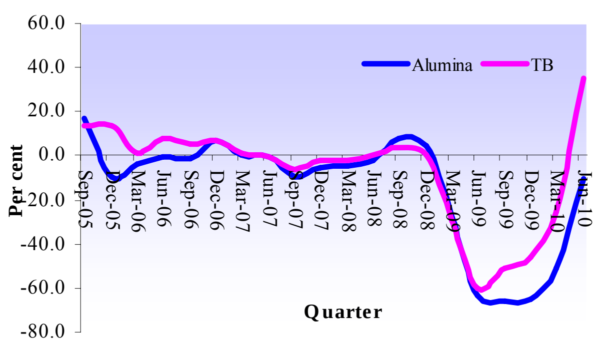
Sources: Bank of Jamaica, MOA

Figure 3.4
Total Electricity Generation & Sales
(12-Month change)



Source: JPS & NWC

Figure 3.5
Trends in Alumina &Total Bauxite Production
(12-Month Change)



Source: Jamaica Bauxite Institute

cent, respectively, in sugar, coffee and cocoa. The export of citrus, however, increased by 6.9 per cent but was insufficient to offset the decline in the other crops. Coffee exports have been significant impacted by reduced global income, which has resulted in lower external demand. Against this background, Jamaica saw a significant reduction in its exports to its biggest market, Japan. The contraction in sugar stemmed from decreased sucrose content attributed to the unfavourable weather conditions during the harvesting season.

For the June 2010 quarter, ***Electricity & Water*** was estimated to have registered a marginal decline, compared to the average increase of 2.2 per cent recorded over the previous four quarters. The contraction in output was deduced from reductions of 9.0 per cent and 0.5 per cent in water production and total electricity generation, respectively (see **Figure 3.4**). The fall out in water production was due to drought conditions during the quarter.

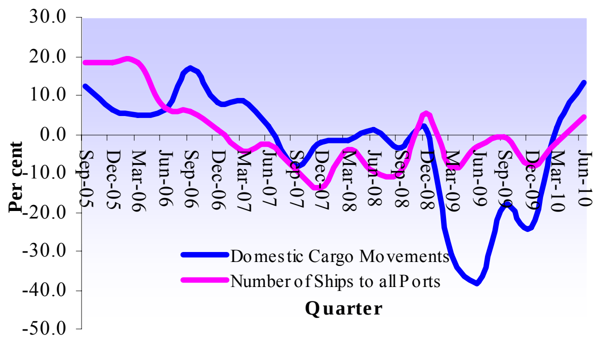
Following an average quarterly decline of 53.7 per cent over the previous four quarters, ***Mining & Quarrying*** is estimated to have grown moderately in the review period. The industry's performance primarily reflected the doubling of bauxite production. In this regard, average capacity utilization within the bauxite industry increased to 98.9 per cent, relative to 48.7 per cent in the similar period of 2009. Within the alumina industry, capacity utilization remained low at 29.0 per cent due to the prolonged closure of two of three plants. In this context, total bauxite production increased by 35.4 per cent, while alumina production declined by 10.4 per cent (see **Figure 3.5**).

Transport, Storage & Communication is estimated to have grown marginally in the review quarter compared to an average decline of 1.2 per cent over the preceding four quarters. The growth in the industry primarily reflected increases in water transport inferred from estimated expansions of 13.1 per cent and 4.6 per cent in domestic cargo movements and the number of ship calls to the Island's ports, respectively (see **Figure 3.6**). The growth in cargo movements was primarily attributed to the relative improvement in world trade consequent on more favourable global economic conditions. A decline was, however, estimated for air transport which was outweighed by the growth in water transport. The contraction in air transport was deduced from a fall of 6.3 per cent in visitor arrivals as well as continued rationalization in the operations of Air

Figure 3.6

Total Domestic Cargo Movements and Number of Ships to all Ports

(12-Month change)

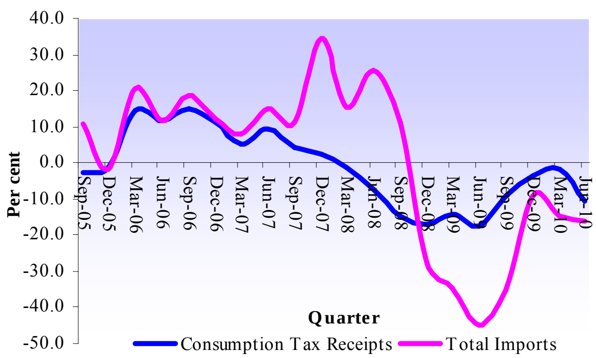


Source: Port Authority of Jamaica

Figure 3.7

Private Consumption Spending Indicator

(12-Month Change)

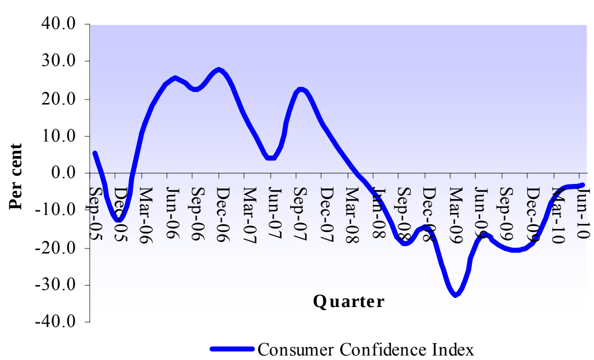


Source: Bank of Jamaica, MOF

Figure 3.8

Consumer Confidence Index

(12 Month Change)



Source: Jamaica Conference Board

Jamaica[23].

Aggregate Demand

Estimates of the expenditure components of GDP for the review quarter suggest further declines in ***Consumption*** and ***Investment.*** This is in contrast to an estimated improvement in ***Net External Demand***, relative to the comparable period of 2009.

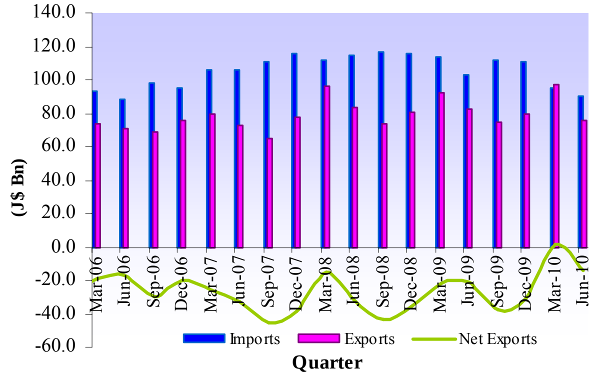
The reduction in ***Private Consumption***, albeit at a slower rate, relative to the similar period of 2009, was inferred from declines of 10.6 per cent and 16.1 per cent, in real consumption tax receipts and total imports of goods and services, respectively, relative to the June 2009 quarter (see **Figure 3.7**). Persistent weak domestic demand arising from the fallout in income continues to affect the performance of imports and consumption tax receipts. Of note, the gradual slowing in the rate of decline in real ***Private Consumption*** could be attributed to the improvement in remittance inflows and the reduction in the rate of deterioration in consumer confidence as indicated by the Jamaica Conference Board's Survey of Consumer Confidence. Consumer confidence contracted by 3.0 per cent in the June 2010 quarter, in comparison to a decline of 16.9 per cent for the similar period of 2009 (see **Figure 3.8**).

The decline in ***Government Consumption*** reflected an estimated 19.8 per cent and 3.3 per cent reduction in Government expenditure (less interest payments) and public wage payments, respectively. The contraction in public spending is associated with fiscal restraint.

The pace of decline in ***Gross Fixed Capital Formation*** accelerated in the June 2010 quarter. The deterioration in investment spending was due to lower levels of private investment as Central Government investment remained high during the review quarter. The deterioration in private investment spending was deduced from estimated declines of 38.0 per cent and 33.1 per cent in foreign direct investment and capital goods imports, respectively. With regard to public sector investment spending, its growth was inferred from an estimated expansion of 30.5 per cent in

[23] On 01 May 2010 the Government of Jamaica handed over the national carrier, Air Jamaica to Caribbean Airlines Limited. The airline is currently being operated under a lease agreement. The divestment has resulted in the continued restructuring of the airlines operations.

Figure 3.9
Net Exports



Source: BOJ & STATIN

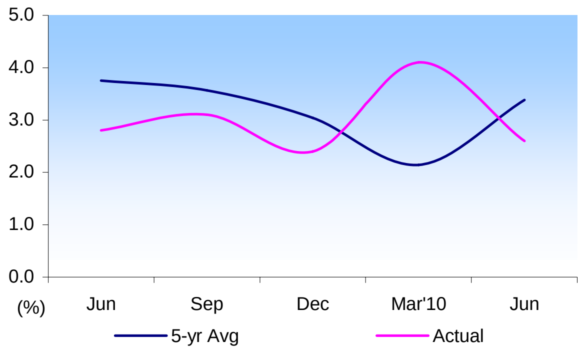
Government's capital expenditure, attributed mainly to ongoing road repair works undertaken by the Ministry of Transport.

Estimates for ***Net External Demand*** indicated an improvement in external trade when compared to the similar period of 2009 (see **Figure 3.9**). The improvement was influenced by an estimated decline of 12.4 per cent in imports, the impact of which was outweighed by a 7.9 per cent reduction in exports. The contraction in imports was attributed to estimated decreases of 27.8 per cent and 9.8 per cent in consumer goods and capital goods imports, respectively. The performance of exports was primarily due to estimated declines of 24.4 per cent and 53.8 per cent, in the volume of alumina and sugar exports, respectively. The alumina industry continued to be influenced by weak global demand, which had resulted in the closure of two alumina plants[24].

[24] During the last month of the quarter, production resumed at one of the plants that had been closed.

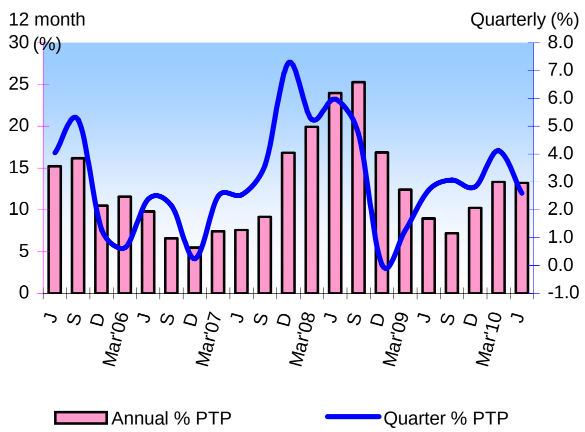
4. Inflation

Figure 4.1
Quarterly Inflation Rate



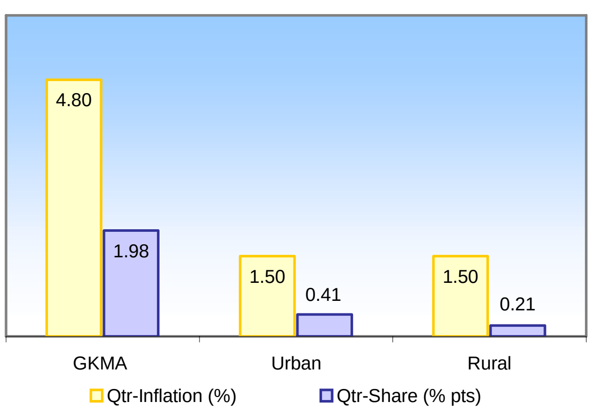
Source: STATIN & BOJ

Figure 4.2
Inflation (Annual & Quarterly Point to Point Rates)



Source: STATIN & BOJ

Figure 4.3
Geographical Distribution of Inflation and Share



Source: STATIN & BOJ

Headline inflation for the June 2010 quarter was 2.6 per cent, much lower than the 4.1 per cent outturn for the March 2010 quarter. Inflation in the review quarter was largely influenced by the administrative price adjustment of bus fares within the Kingston Metropolitan Area. Inflationary pressures during the quarter also emanated from the impact of drought conditions in the first four months of the year, which contributed to higher vegetable prices. The impact of these impulses was to a large extent moderated by weak demand and reduced energy cost. The lower cost of energy was directly attributed to the appreciation of the domestic currency against the US dollar. Additionally, a strengthening US dollar against its major trading partners during the review period resulted in generally lower oil prices.

Trends in Price Indices

During the June 2010 quarter the All Jamaica Consumer Price Index (CPI) increased by 2.6 per cent, which compared favourably to the 4.1 per cent in the March 2010 quarter, the 2.7 per cent in the corresponding June 2009 quarter and also the 3.5 per cent average for the previous five June quarters (see **Figure 4.1** and **Figure 4.2**). The outturn for the June 2010 quarter was at the lower end of the 2.5 per cent to 3.5 per cent forecast range reported in the March 2010 Quarterly Monetary Policy Report (QMPR). Inflation for April, May, and June was 1.3 per cent, 0.6 per cent and 0.6 per cent, respectively.

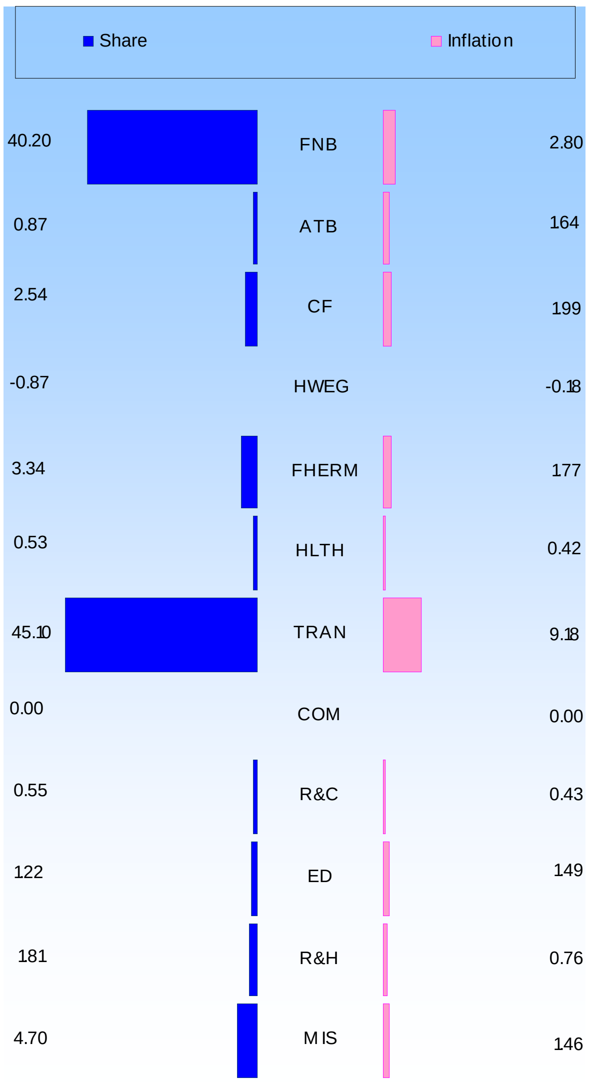
All regions except for Greater Kingston and Metropolitan Area (GKMA) recorded lower inflation during the June 2010 quarter when compared to the previous quarter and the corresponding quarter of FY2009/10 (see **Figure 4.3**).

Underlying Inflation

The measures of core inflation in the June 2010 quarter were all lower than those recorded in the March 2010 quarter and the levels recorded in the corresponding June quarter of 2009/10.[25] In the June 2010 quarter, the trimmed-mean (CPI-TRIM) was 1.1 per cent, while the CPI without Agriculture and Fuel (CPI-AF) was 1.8 per cent and the CPI without

[25] Core inflation in the March quarter predominantly reflected the combined impact of tax and other administered price adjustments implemented in that quarter.

Figure 4.4
Inflation by Division



MIS= Miscellaneous Goods & Services, R&H=Restaurants & Hotels, ED=Education, R&C=Recreation & Culture, COM=Communication, TRAN= Transportation, 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

Source: STATIN & BOJ

Food and Fuel (CPI-FF) was 1.7 per cent.

Main Microeconomic Factors

The main impulse to inflation during the June 2010 quarter emanated from administrative cost adjustment to transportation, which reflected an increase in bus fares in the first month of the quarter. The second largest impulse emerged from weather related factors affecting *Food and Non-Alcoholic Beverages*, which contributed to higher prices for vegetables (see **Figure 4.4**). Countervailing forces emanated from declining energy costs and strengthening of the Jamaica Dollar, which led to price reversals among some processed foods and services.

Administrative Costs

The main administrative stimulus to inflation during the June 2010 quarter was the 60.0 per cent increase in bus fares by the Jamaica Urban Transport Company (JUTC) operating in the Kingston and Metropolitan Area.[26] This led to a 9.2 per cent increase in ***Transportation*** which accounted for approximately 81.2 per cent of the inflation in April. Overall, the outturn for April accounted for approximately 50.8 per cent of the quarter's inflation.

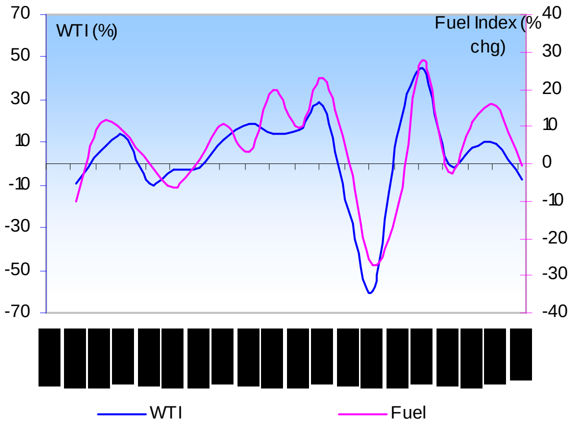
Energy Costs

Energy-related inflation, as measured by the Bank's Fuel Index, decreased by 0.3 per cent in the June quarter relative to the 15.5 per cent increase in the March 2010 quarter (see **Figure 4.5**).[27] The fall in energy related costs was largely due to a reduction in global oil prices, as reflected in a 7.4 per cent decline in the benchmark West Texas Intermediate (WTI) crude oil price. This reduction in oil prices was attributed to the weaker economic outlook for Europe given the debt crisis in Greece. This resulted in an appreciation of the US dollar and a contraction in demand for oil on the international commodities market (see **International Developments**).[28] An appreciation in the value of the domestic currency also contributed to the lower price for domestic energy.

[26] Effective April 1, 2010 JUTC bus fare increased by 60 per cent for adults and 33.3 per cent for subsidized carriage. The CPI only records adult fares.
[27] The BOJ Fuel Index is a simple average of prices for E10-87, E10-90 and Diesel.
[28] Oil is priced in USD on the global commodities market. A USD appreciation makes oil more expensive resulting in reduced demand and ultimately a contraction in the quoted price for the commodity.

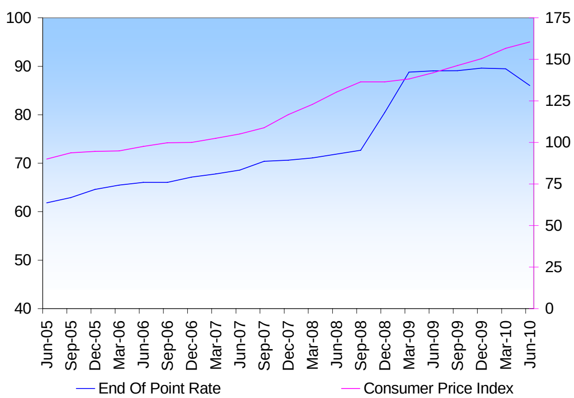
Figure 4.5

Quarterly Change in Fuel Index and Lagged WTI



Source: STATIN & BOJ

Figure 4.6



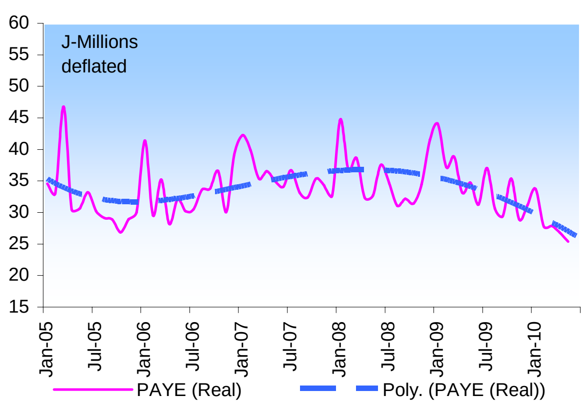
Quarterly Average and End of Point US Exchange Rate

Rate

Source: STATIN & BOJ

Figure 4.7

Real and Nominal Jamaican PAYE Contribution



Source: MOF&P & BOJ

Exchange Rates

The value of the Jamaica Dollar appreciated vis-à-vis the US Dollar by 4.2 per cent between February 2010 and June 2010. This followed relative stability between February 2009 and February 2010.[29] The appreciation was partially attributed to an improvement in investor confidence associated with the successful implementation of the JDX programme as well as the achievement of the March 2010 targets under the IMF Stand-By Arrangement (see **Figure 4.6)**. This appreciation generated countervailing pressures on inflation during the quarter as the relative cost of imported goods and services declined.

Weather Shocks

Adverse weather conditions resulted in upward price impulses in *Food & Non-Alcoholic Beverages*. Since June 2009, climatic conditions across the globe have been severely disrupted by the "El Niño" weather phenomenon.[30] This led to an extended period of drought in Jamaica between the June 2009 and June 2010 quarters.[31] The result was some contraction in the supply of vegetables, which contributed significantly to inflation in the review quarter.

Main Macroeconomic Factors

A range of indicators suggest low levels of domestic demand while supply has been buoyed by lower energy cost. Despite early signs of recovery among suppliers, it is anticipated that consumer demand will remain sluggish.

Aggregate Demand Indicators

The range of demand indicators includes PAYE, remittance inflows, credit card receivables, consumer confidence, and seasonally adjusted GCT collections. Since February 2009 there has been a declining trend in PAYE, a proxy for wages (see **Figure 4.7**). Over the 12-month period ending May 2010, PAYE declined by 16.6 per cent, indicating a decline in the spending power of salaried workers.

---

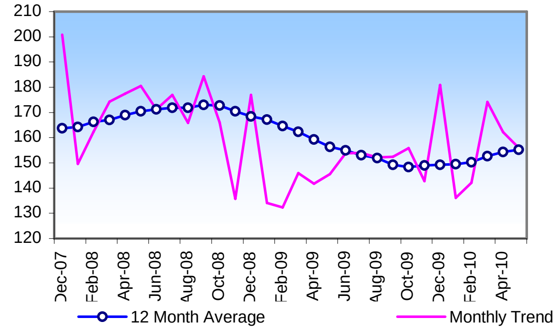
[29] Exchange rated depreciated by 1.64 per cent over the 12-month period to February 2010

[30] The El Niño develops from warm surface water temperatures in excess of 0.5 Degree Celsius and is extended over the central and eastern Pacific Ocean. The climatic changes extended from the western seaboard of Latin America to East Africa.

[31] The World Meteorological Organization (WMO) reports that this system may have peaked between November 2009 and December 2009 and is likely to have persisted into the second quarter of 2010.

Figure 4.8

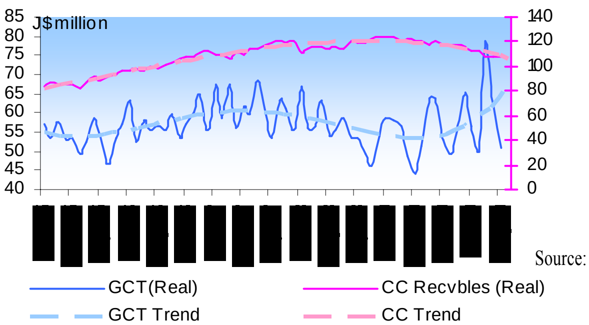
Trends in Monthly and Annual Average Remittance Inflows



Source: MOF&P & BOJ

Figure 4.9

Trends in Real GCT and Credit Card Receivables in J$ millions



Source: MOF&P & BOJ

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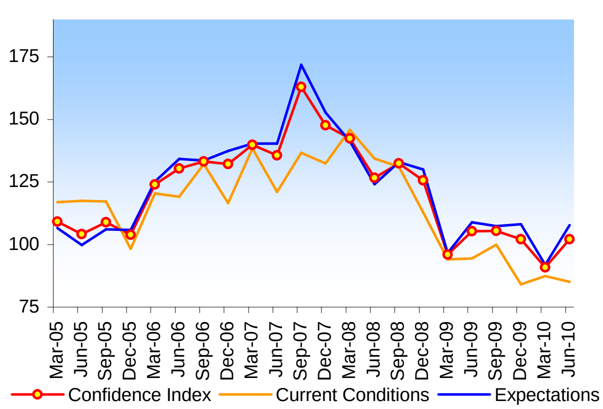
Figure 4.10

Jamaica's Quarterly Consumer Confidence Index



Source: JCB data

Remittance inflows reflected some improvement in the June 2010 quarter. However, the 12-month average remittance inflows remain at substantially low levels relative to the pre-crisis period. This suggests continued constrained income levels and the likelihood of more conservative spending habits (see **Figure 4.8**). Total credit card receivables in real terms have been declining since February 2009, reflecting continued deterioration in demand conditions. In the June 2010 quarter real credit card receivables declined by 2.0 per cent, following a 0.6 per cent contraction in the March 2010 quarter when compared to the previous quarter (see **Figure 4.9**).

Consumer confidence as reflected in the Jamaica Conference Board (JCB) Perceptions of Current Economic Conditions Index declined by 2.6 per cent during the quarter signalling continued constraints on consumer spending despite an overall improvement in confidence based on expectations (see **Figure 4.10**). However, the seasonally adjusted real GCT collections reflected an average increase over the quarter before, following a significant contraction during the recession (see **Figure 4.11**). However, the improved GCT collections could be largely attributed to enhanced revenue generating measures implemented by the GOJ subsequent to the global economic crisis as against a rise in consumption.

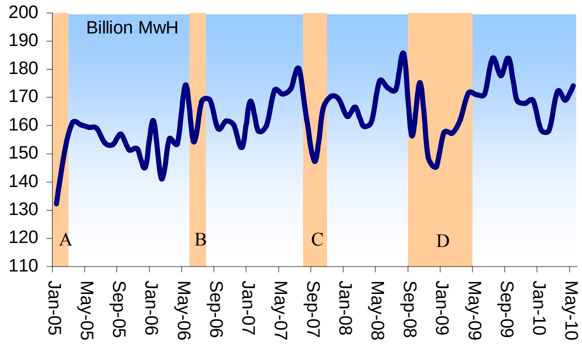
Aggregate Supply Indicators

Industrial electricity sales, an indicator for activity among manufacturers, hotels and distributive traders reflected some normalization following the global economic recession (see **Figure 4.11**, area **D**). Distributors and some local manufacturers have reported lacklustre demand amid strengthening supplies and declining costs.

Poor supplies of Irish Potatoes due to bad seedlings in the last planting period, which was exacerbated by drought and disease, contributed to the overall shortage of tubers during the June 2010 quarter. Additionally, in the early parts of the quarter, the after-effects of prolonged drought conditions led to increased vegetable prices. In the last month of the quarter, however, the Rural Agriculture Development Agency (RADA) reported some recovery among leafy vegetables, while food vegetables remain relatively stable. Drought related inflation, though positive, showed signs of dissipating towards the end of the quarter.

Figure 4.11

Industrial Electricity Sales – Productivity Indicator



A → Industrial Dispute in Sugar Industry

B → Recall of Defective Cement

C → Hurricane Dean Sep 2007

D → Hurricane Gustav & Economic Crisis despite declining crude oil prices

Source: JPSCo. & BOJ

Summary

Inflation in the June 2010 quarter was relatively low when compared to the seasonal average. This can be largely attributed to the countervailing forces impacting inflation during the period. Key among these was the lowering of energy related costs and other imported commodity prices, which reflected a strengthening of the Jamaica Dollar against the US dollar as well as the lower international oil prices that resulted from the strengthening of the US dollar against its major counterparts. Additionally, signals of improved aggregate supply reflecting strong agriculture performance and a build-up of inventories due to persistently low domestic demand continued to restrain inflation during the quarter. Higher prices in the review quarter was largely attributed to administrative cost adjustments to transportation and the after-effects of drought conditions resulting in the shortage of some agriculture items.

5. Economic Outlook and Monetary Policy Perspectives

Table 5.1

Jamaica: Selected Economic Indicators		
	Projections for Sep' 10 Quarter	Target for FY10/11
Inflation (% change)	1.5 to 2.5	7.5 to 9.5
Base Money (% change)	-6.0 to -4.0	7.5 to 8.5
Net Int'l. Reserves US$MN (End Period)	1750.0	1424.0
GDP (12-mnth % Change)	0.0 to 1.0	0.0 to 1.0

The outlook for the Jamaican economy continues to improve against the background of the recovery in the global economy. In addition, the expectation that Jamaica will pass the second consecutive test under the International Monetary Fund's (IMF's) 27-month Stand-By Arrangement should strengthen investor confidence.

Jamaica's output is projected to expand within a range of 0.0 per cent to 1.0 per cent in the September 2010 quarter, which would be the first expansion since the September 2007 quarter. This improved performance should emanate mainly from ***Agriculture****,* ***Forestry & Fishing****,* ***Mining & Quarrying****,* ***Transport****,* ***Storage & Communication*** *and* ***Electricity & Water Supply****.*

Headline inflation is forecasted to be in the range of 1.5 per cent to 2.5 per cent, which would be below the 2.6 per cent inflation rate recorded in the June 2010 quarter. A projected moderate increase in imported inflation, stable domestic capacity conditions, decreasing inflation expectations and relatively stable exchange rates underpin the forecast for the quarter.

Given the general improved macroeconomic outlook, the BOJ will make strategic policy adjustments consistent with the maintenance of market stability and meeting the inflation target.

Outlook - September 2010 Quarter

Inflation

Inflation in the September 2010 quarter should be lower than the rates recorded in the March and June 2010 quarters.

Inflation in the September 2010 quarter is forecasted to be in the range of 1.5 per cent to 2.5 per cent. This would mark a continued reduction in the quarterly inflation rate following the 4.1 per cent and 2.6 per cent recorded in the March and June 2010 quarters, respectively. The inflation forecast for the September 2010 quarter would be significantly lower than the seasonal average of 3.8 per cent.[32] Expectations of moderate increases in imported prices, stable capacity conditions, declining inflation expectations and

[32] The seasonal average is based on the calculation for the previous five September quarters.

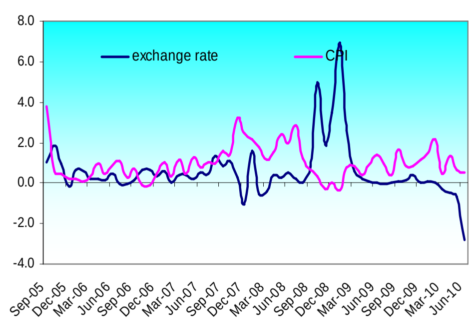
stable exchange rates underpin the forecast for the September quarter.

Imported Inflation

Average import price is projected to rise by 2.4 per cent in the September 2010 quarter. This upward trend should be driven primarily by increases in agricultural raw material prices and moderate increases in crude oil prices. Wheat, corn and soybean prices are projected to rise by 17.4 per cent, 4.1 per cent and 6.2 per cent, respectively. The outlook for wheat prices is informed by the adverse impact of drought conditions in Europe on production. This is anticipated to positively affect the prices of substitutes such as corn and soybeans. Additionally, the price of rice from Guyana is expected to continue to increase due to prolonged drought conditions in that country. However, the benchmark Thai rice price is projected to decline by 6.7 per cent in the quarter due to the resumption of full scale exports of rice from Thailand. As such, the domestic impact of the price increases in Guyana should be mitigated by the importation of rice from other sources.

Crude oil prices are forecasted to rise by 3.8 per cent relative to the average price for the June 2010 quarter. The projected increase in the average price of crude oil reflects expectations of an increase in demand due to a better than expected economic outlook for Europe. The depreciation of the US dollar is also expected to increase demand for the commodity as an alternative investment.

Figure 5.1
Trends in Changes in Exchange Rate and Headline Inflation



The pass-through of the rise in imported prices to domestic inflation will be moderated by the lagged impact of the 4.1 per cent appreciation of the Jamaica Dollar vis-à-vis its US dollar counterpart in the June 2010 quarter (see **Figure 5.1**). Additionally, the foreign exchange market should be relatively stable in the September quarter, given anticipated increased inflows from major earners of foreign currency in particular, mining related exports. However, spending on imports of raw material and consumer goods is also projected to increase in the quarter. Nonetheless, it is expected that net private capital inflows should be sufficient to offset the demand for foreign currency associated with these current account transactions.

Figure 5.2
Trends in Domestic Headline Inflation and the Output Gap (percent change)

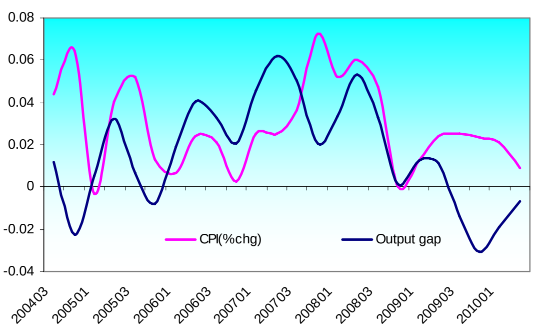


Figure 5.3
Index of Inflation Expectations of Businesses

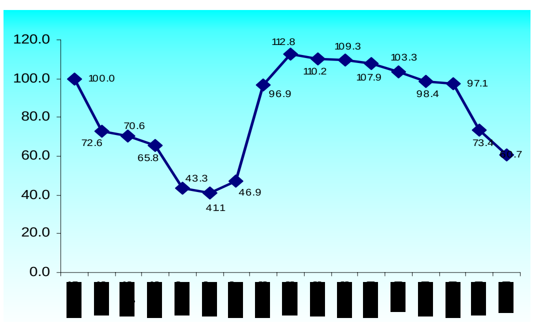
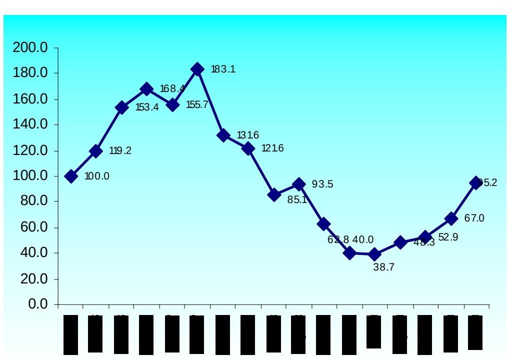


Figure 5.4
Index of Present Conditions of Businesses



Domestic Capacity Conditions

Excess domestic capacity conditions should continue to temper potential price increases in the economy. The measure of the output gap remains negative, though the magnitude is decreasing as the economy slowly recovers (see **Figure 5.2**).[33] The estimate suggests that the gap should remain negative in the September quarter, but could become positive in the second half of the fiscal year.

Inflation Expectations

The Bank's Survey of the inflation expectations of businesses conducted in the June quarter indicated that firms expect that inflation for the 2010 calendar year will moderate significantly, relative to what they expected for 2009 (see **Figure 5.3**). The survey responses revealed a general moderation in inflation expectations due to an improvement in the perceived management of inflation and the subdued demand that has resulted from lower incomes. Businesses reported some improvement in their perception of present business conditions and showed a record increase in their expectation of future business conditions (see **Figures 5.4** and **5.5**). These responses suggest an improved outlook for investment and production. If this increase in output outpaces the growth in demand, it could translate to lower inflation over the short to medium term.

Output

Jamaica's Gross Domestic Product (GDP) is expected to expand in the September 2010 quarter. This would be the first expansion since the September 2007 quarter. Growth is projected to be in the range of 0.0 per cent to 1.0 per cent, reflecting expansion in ***Agriculture, Forestry & Fishing***, ***Mining & Quarrying***, ***Transport***, ***Storage & Communication*** and ***Electricity & Water Supply***.

The performance of *Agriculture, Forestry & Fishing* is premised mainly on growth in domestic agriculture, albeit at a slower pace than the average quarterly growth recorded since the March 2009 quarter. *Mining & Quarrying* should reflect continued

[33] The output gap is calculated as actual output minus potential.

Figure 5.5
Index of Future Business Conditions

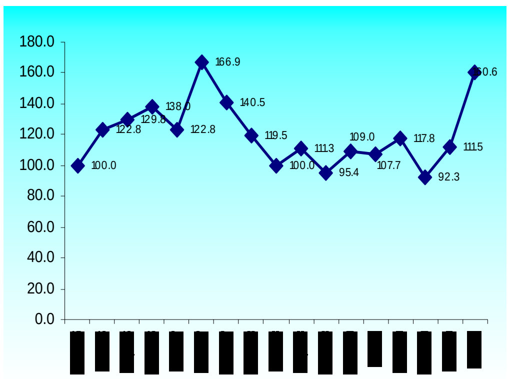
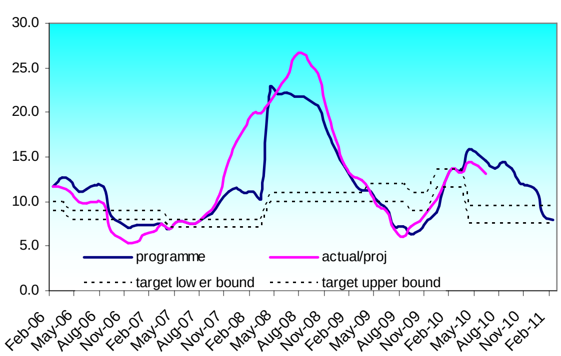


Figure 5.6
Consumer Price Index
(Annual point to point change)



normalization of output relative to the September 2009 quarter. This is based mainly on an anticipated increase in the capacity utilization of the Noranda Bauxite Company to approximately 96.7 per cent relative to 77.8 per cent in the September 2009 quarter. ***Transport, Storage & Communication*** should reflect increases in domestic cargo movements by water and increased activity at the Island's ports. ***Manufacture*** and ***Wholesale & Retail Trade***, ***Repair & Installation of Machinery*** are expected to record declines consistent with continued weak demand.

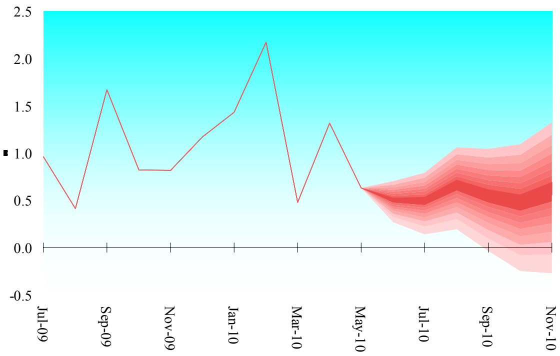
Outlook - FY2010/11

There is some uncertainty about the pace of recovery of the global economy. In July, the IMF projected that global output would expand by 4.5 per cent for 2010 and 4.3 per cent for 2011.[34] This represents the third consecutive upward revision of its growth outlook for these two years since the publication of the October 2009 World Economic Outlook. The improved outlook comes despite increasing concerns about the health of the European economy as debt challenges in Greece, Portugal, Ireland, Italy and Spain have resulted in significant fiscal austerity measures across Europe. However, with the uncertainty about the pace of recovery in the US coupled with the concerns about Europe, the outlook for growth in 2010 could be revised downwards.

In the context of the uncertainties with regard to global growth, the forecast is for a weak expansion in domestic output, in the range of 0.0 per cent to 1.0 per cent, with stronger growth occurring in the second half of the fiscal year relative to the first half. Domestic inflation for the fiscal year is forecasted to be in the range of 7.5 per cent to 9.5 per cent. The price patterns are, generally in line with the programmed path but the levels have been at the lower end of the target band (see **Figure 5.6**).

[34] See July 2010 WEO Update released on 07 July 2010.

Figure 5.7
Monthly Inflation Forecasts (per cent)



Risks

The risks to the inflation forecast are balanced (see **Figure 5.7**). The upside risks include adverse weather shocks which could affect domestic production. Following the dissipation of the El Niño weather phenomena, current forecasts are for an extremely active Atlantic Hurricane Season.[35] In May 2010, the National Oceanic and Atmospheric Administration (NOAA) forecasted that there could be between 14 and 23 named storms, with 8 to 14 of them developing into hurricanes.[36] Downside risks to the inflation forecast include a greater than anticipated contraction in demand due to the significant reductions in real incomes.

Monetary Policy

The Central Bank's policy strategy has continued to successfully maintain price changes closely in line with its programmed path (see **Figure 5.7**). Consistent with this performance, the inflation outturn in the June quarter was just above the lower bound of the forecast range, despite the tax measures announced in the March 2010 quarter.

With the successful implementation of the JDX in February, the passing of the IMF-SBA test in March and favourable expectations for the June targets, key indicators of the health of the macro-economy continue to improve. As such, market interest rates continue to trend downwards and the value of the Jamaica Dollar remains relatively stable. Against this background, investor confidence is expected to strengthen.

In the context of this favourable environment, the Bank effected a 2.0 percentage point reduction in the cash reserve ratio of deposit-taking institutions in respect of prescribed local currency liabilities to 12.0 per cent on 01 July 2010. The Bank will make further strategic policy adjustments consistent with the maintenance of market stability and achieving the inflation target.

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[35] See **Inflation** chapter for a more detailed discussion of El Niño and it's impact on local weather

[36] Based on data between 1950 and 2005, an average season constitutes 10.3 named storms, 6.2 hurricanes and 2.7 major hurricanes.

Appendices

A. Fiscal Developments: Provisional April to June 2010

Preliminary data for the June 2010 quarter indicate that the Central Government recorded a fiscal deficit of $10.5 billion or 0.8 per cent of GDP compared to a budgeted deficit of $16.1 billion or 1.3 per cent of GDP. The lower than budgeted outturn reflects containment in Expenditure coupled with higher than anticipated Revenue & Grants. In that context, the primary balance was $10 598.8 million, 0.8 per cent of GDP, exceeding both the budget and IMF- SBA target of $6 592.6 million and $6 500.0 million, respectively. Concurrently, the current surplus was $35.1 million as against a budgeted current deficit of $2 716.6 million reflecting containment in current expenditure (see **Table**).

With respect to the accounts of the Central Government, Revenue & Grants for the quarter was $2.7 billion higher than budget reflecting higher than projected Grants and Tax Revenue. Grant flows reflected the receipt of approximately $2.9 billion (€26.0 million) from the European Union. Tax revenues collection partly reflected the effectiveness of the tax measures implemented in December 2009 as reflected in the C-Efficiency ratio (GCT &SCT) of 81.8 per cent.

Expenditure for the review quarter was $2.9 billion below budget with the deviation reflected in all sub-categories. Notably, the containment of interest expenditure, in particular foreign interest payments, was influenced by the appreciation in the value of the Jamaica Dollar vis-à-vis its US dollar counterpart (see **Foreign Exchange Market**). Lower than budgeted domestic interest payments reflected the Government not being called upon to make payments on behalf of public entities as well as lower than anticipated exchange rate and interest rate paths.

Financing was secured from the domestic market through the reopening of four benchmark instruments and the issue of a 4-year instrument which replaced a 3-month instrument that matured. This maintained the number of domestic debt instruments at twenty-five in keeping with the Government's debt strategy. All the instruments were fixed rate (FR) with coupons ranging between 12.0 per cent and 13.25 per cent, while the simple average age of debt is 12.33 years relative to 3.48 years in fiscal year 2009/10. Other financing was accessed through a draw-down of balances at commercial banks, as well as from foreign sources. During the quarter US$33.3 million was received from the Caribbean Development Bank (CDB) related to the signing of the IMF and other multinational agreements. Other external financing during the period included project loans which were higher than budgeted.

Preliminary data on public entities' performance indicate that there was a net use of financing of $3.6 billion for the June quarter, relative to an IMF-SBA target of $3.0 billion. The outturn significantly reflected a net use of foreign financing as there was net amortization of domestic borrowing. The major users of financing were Airport Authority of Jamaica, Port Authority of Jamaica and Sugar Company of Jamaica Holdings.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS
FY 2010/11

(J$MN)

	FY 2010/11 Q1	Budget Q1	Variance	%	IMF-SBA Programme	Variance	%
Revenue & Grants	**75524.5**	**72816.4**	**2708.1**	**3.7**	**72800.0**	**2724.5**	**3.7**
Revenue	**72138.7**	**71913.7**	**225.1**	**0.3**	**71900.0**	**238.7**	**0.3**
Tax Revenue	63250.3	62380.6	869.6	1.4	62500.0	750.3	1.2
Non-Tax Revenue	7249.3	7747.8	-498.5	-6.4	9400.0	-2150.7	-22.9
Bauxite Levy	16.9	149.7	-132.8	-88.7			
Capital Revenue	1622.3	1635.5	-13.2	-0.8			
Grants	3385.8	902.8	2483.0	275.0	900.0	2485.8	276.2
Expenditure	**85974.9**	**88928.8**	**-2953.9**	**-3.3**	**90100.0**	**-4125.1**	**-4.6**
Recurrent Expenditure	70481.3	72994.8	-2513.5	-3.4	74100.0	-3618.7	-4.9
Programmes	17476.0	17911.6	-435.6	-2.4	17900.0	-424.0	-2.4
Wages & Salaries	31956.2	32378.3	-422.1	-1.3	32400.0	-443.8	-1.4
Interest	21049.1	22705.0	-1655.8	-7.3	23800.0	-2750.9	-11.6
Domestic	11311.2	12317.4	-1006.3	-8.2	13000.0	-1688.8	-13.0
Foreign	9738.0	10387.5	-649.6	-6.3	10800.0	-1062.0	-9.8
Capital Expenditure	15493.5	15934.0	-440.5	-2.8	16000.0	-506.5	-3.2
Non-interest expenditure	**64925.7**	**66223.8**	**-1298.1**	**-2.0**	**66300.0**	**-1374.3**	**-2.1**
Fiscal Balance	**-10450.4**	**-16112.4**	**5662.0**	**-35.1**	**-17300.0**	**6849.6**	**-39.6**
Current Balance	**35.1**	**-2716.6**	**2751.7**	**-101.3**	**-2200.0**	**2235.1**	**-101.6**
Primary balance	**10598.8**	**6592.6**	**4006.2**	**60.8**	**6500.0**	**4098.8**	**63.1**
		In Percent of GDP			**In Percent of GDP**		
BR	**0.8**	**1.3**			**1.4**		
CB	**0.0**	**-0.2**			**-0.2**		
PB	**0.8**	**0.5**			**0.5**		
IP	**1.7**	**1.8**			**1.9**		
FSR	**-1.1**	**-1.2**			**-1.2**		
NIE	**5.2**	**5.3**			**5.4**		

Key

BR = Borrowing Requirement = Fiscal Balance as a percent of GDP
CB= Current Balance = Current Revenue-Current Expenditure as a percent of GDP
PB= Primary Balance = Total Revenues-Total Expenditures less Interest Payments (IP) as a percent of GDP
IP= Interest Payments as a percent of GDP
FSR=Fiscal Stability Ratio = (Overall Balance/ Total Revenue) - 1

International Benchmarks

BR greater than **3% of GDP** often indicates serious fiscal imbalance
FSR closer to zero indicates more stable government finances
Negative CB ratio of less than 1% indicates dissaving or a need for fiscal adjustment as the public sector is borrowing for consumption
PB ratio above zero indicates major fiscal adjustment to cover interest on past obligations

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

B. MONETARY POLICY DEVELOPMENTS

27/04/2000	30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.
01/06/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.
28/07/2000	30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.
11/08/2000	30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.
01/09/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.
18/09/20000	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/20000	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/2000	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/2000	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/2000	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/2001	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.
20/02/2001	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/2001	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.
08/03/2001	Interest rates on the 365-day, 270-day instruments were reduced to 19.00 per cent, 18.25 per cent per cent respectively.

12/03/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 percent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/2001	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/2001	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 percent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.
25/06/2001	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 percent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/2001	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/2001	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%).
	Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).
	The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies.
	The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/2001	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively
28/12/2001	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/2002	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.
06/02/2002	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.

14/02/2002	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
01/03/2002	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities were reduced from twenty eight per cent (28%) to twenty seven per cent (27%). Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/2002	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/2002	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
01/09/2002	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities was reduced from twenty seven percent (27%) to twenty three percent (23%).
07/08/2002	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
09/09/2002	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/2002	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/2002	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.
01/11/2002	The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum. The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.
10/01/2003	The Bank of Jamaica instituted a “Special Deposit” requirement for Commercial Banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaican Dollar prescribed liabilities.
10/02/2003	The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
14/02/2003	The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.

19/03/2003	Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.
26/03/2003	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/2003	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/2003	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.
24/06/2003	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.
08/07/2003	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/2003	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/2003	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/2003	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/2003	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/2003	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/2004	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/2004	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/2004	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/2004	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.
27/02/2004	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.
10/03/2004	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.
10/03/2004	Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.

02/04/2004	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.
19/04/2004	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.
05/05/2004	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.
03/09/2004	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.
28/12/2004	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.80 per cent, 13.95 per cent, 14.05 per cent, 14.15 per cent, 14.30 per cent, 15.00 per cent and 15.50 per cent, respectively.
07/02/2005	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.50 per cent, 13.65 per cent, 13.75 per cent, 13.85 per cent, 14.00 per cent, 14.50 per cent and 15.00 per cent, respectively.
07/02/2005	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing three (3) percent of their prescribed liabilities.
07/03/2005	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.95 per cent, 13.10 per cent, 13.20 per cent, 13.30 per cent, 13.45 per cent, 14.00 per cent and 14.50 per cent, respectively. These rate adjustments were underpinned by continued stability in the exchange rate, reflecting buoyant foreign exchange inflows from tourism and remittances. Also, the Bank's net international reserves remained around US$1.8 billion, a level that was more than adequate to underwrite near term stability. In addition, inflation in the first quarter of 2005 was expected to continue on a downward trend engendering a return to single digit inflation in the forthcoming fiscal year.
16/05/2005	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing one (1) percent of their prescribed liabilities.
26/05/2005	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.60 per cent, 12.70 per cent, 12.75 per cent, 12.85 per cent, 13.00 per cent, 13.25 per cent and 13.60 per cent, respectively. The adjustments were consistent with the steady improvement in Jamaica's economic environment as reflected in buoyant foreign exchange inflows, stability in the money and foreign exchange markets and a strong international reserve position. Furthermore, the near-term prospects for production and prices continued to be very favourable with strong recovery expected in domestic agriculture as well as ongoing expansion in tourism and mining activities. In addition, it was expected that the normalization of food supplies and continued stability in the foreign exchange market would help to contain inflation during the 2005/2006 fiscal year.
27/05/2005	The Bank phased out its reverse repurchase agreements. This facilitated consistency in the accounting treatment (under International Financial Reporting Standards) of open market instruments by holders.

18/04/2006	The Bank suspended the acceptance of placements on its open market operations (OMO) instruments with tenors of 270 days and 365 days, until further advised. The OMO instruments, along with corresponding interest rates, that remained on offer were 30-days: 12.6 per cent; 60-days: 12.70 per cent; 90-days: 12.75 per cent; 120-days: 12.85 per cent; and 180-days: 13.00 per cent.
01/05/2006	The Bank removed the requirement that deposit-taking institutions must hold some portion of their assets as a Special Deposit with the Central Bank. This requirement was introduced in January 2003 to stabilize the financial markets. The initial deposit requirement was set at 5 per cent of prescribed liabilities and this was reduced to 1 per cent in two steps between February and May 2005. The significant improvement in macroeconomic conditions and the positive outlook for fiscal year 2006/07 allowed for the return of the remaining deposits. The sum due to financial institutions as at 28 April 2006 was J$1 564.1 million.
12/05/2006	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.45 per cent, 12.50 per cent, 12.60 per cent, 12.65 per cent and 12.80 per cent, respectively.
01/09/2006	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.15 per cent, 12.2 per cent, 12.30 per cent, 12.35 per cent and 12.50 per cent, respectively.
22/09/2006	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 11.95 per cent, 12.00 per cent, 12.10 per cent, 12.15 per cent and 12.30 per cent, respectively.
22/12/2006	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 11.65 per cent, 11.70 per cent, 11.80 per cent, 11.85 per cent and 12.00 per cent, respectively. This policy action comes against the background of continued robust economic performance and favourable medium term economic outlook.
18/01/2007	The Bank of Jamaica offered a Special One-Year Variable rate Instrument to Primary Dealers and Commercial Banks. Interest payments on this instrument will be made quarterly. The initial coupon is 11.80 per cent per annum, the rate being paid on a Bank of Jamaica 90-day Certificate of Deposit. Subsequent interest payments will be calculated at 1.00 percentage point above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The offer was made in the context of the redemption of Government of Jamaica domestic debt instruments on 18 January 2007 which would increase the level of liquidity in the financial system beyond normal requirements. The Bank continues to offer its regular issues of Certificates of Deposits ranging from 30 days to 180 days.
19/06/2007	The Bank of Jamaica offered a Special Two-Year Variable rate Instrument to Primary Dealers and Commercial Banks during the period 19-22 June 2007. The instrument will be amortized in two equal tranches on 19 June 2008 and 19 June 2009 with quarterly interest payments. The initial coupon is 11.80 per cent per annum, the rate being paid on a Bank of Jamaica 90-day Certificate of Deposit. Subsequent interest payments will be calculated at 1.25 percentage point above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The offer was made in the context of the exceptionally high level of liquidity of Jamaica Dollar liquidity anticipated during the offer period. The Bank continues to offer its regular issues of Certificates of Deposits ranging from 30 days to 180 days.
04/07/2007	As part of its liquidity management strategy, the Bank of Jamaica offered a Special Two-Year Variable Rate Instrument to Primary Dealers and Commercial Banks from 04 July 2007 to 09 July 2007. The instrument, with an initial coupon of 11.98 percent, will be amortized in two equal tranches on 02 January 2009 and 03 July 2009 with quarterly interest payments. Subsequent interest payments will be calculated at 2.00 percentage points above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days
06/09/2007	As part of its liquidity management strategy, the Bank of Jamaica offered a Special Two-Year Variable Rate Instrument to Primary Dealers and Commercial Banks commencing from 06 September 2007 to 12 September 2007. The instrument, with an initial coupon of 12.21 percent per annum, will be amortized in two equal tranches on 05 September 2008 and 04 September 2009 with quarterly interest payments. Subsequent interest payments will be calculated at 2.00 percentage points above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days.
18/09/2007	The Bank of Jamaica accepted subscriptions on a Special One-Year Certificate of Deposit from 18 September 2007 to 26 September 2007. As is customary, this instrument was offered to Primary Dealers and Commercial Banks. Interest on this

instrument will be payable semi-annually at a fixed rate of 14.00 per cent per annum. The offer was designed to effectively manage the level of Jamaica Dollar liquidity anticipated in the financial system.

12/10/2007 The Bank of Jamaica, as part of its liquidity management strategy, offered a `Special Eighteen-Month Variable Rate Instrument to Primary Dealers and Commercial Banks. The instrument will be amortized in two equal tranches on 11 July 2008 and 14 April 2009 with quarterly interest payments. The initial coupon is 14.34 percent per annum. Subsequent interest payments will be calculated at 1.625 percentage points above the Government of Jamaica 90-day weighted average Treasury Bill yield applicable at the beginning of each quarterly interest period.

The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days.

16/11/2007 The Bank of Jamaica, as part of its liquidity management strategy, offered a Special Twelve-Month Variable Rate Instrument to Primary Dealers and Commercial Banks. The instrument will be amortized on 14 November 2008 with quarterly interest payments. The initial coupon is 13.46 percent per annum. Subsequent interest payments will be calculated at 1.5 percentage points above the Government of Jamaica 90-day weighted average Treasury Bill yield applicable at the beginning of each quarterly interest period.

The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days.

09/01/2008 The Bank of Jamaica implemented the following changes to interest rates payable on open-market instruments:

Tenor	**30 days**	**60 days**	**90 days**	**120 days**	**180 days**
Previous Rates (%)	11.65	11.70	11.80	11.85	12.00
New Rate	**12.65**	**12.70**	**12.80**	**12.85**	**13.00**

The realignment of rates placed the Bank in a better position to manage the Jamaica Dollar liquidity that emanated from the maturity of both of both Bank of Jamaica and Government of Jamaica instruments as well as the reflow of currency issued for the Christmas season. The revised rate structure offered investors a range of options that more closely reflected the then existing money market rates.

16//01/2008 Bank of Jamaica offered a 365-day Certificate of Deposit in addition to its regular suite of instruments. This offer attracted a rate of 13.50 per cent per annum, which was consistent with the Bank's then existing interest rate structure. The rates on 30-day to 180-day instruments remain unchanged.

18/01/2008 Bank of Jamaica offered a special 18-month, variable rate certificate of deposit (CD) to banks and primary dealers. The CD attracted a rate of 12.80 per cent for the first 3 months. Thereafter, quarterly interest payments at the 90-day weighted average Treasury Bill rate applicable at the beginning of each interest period plus a margin of 1.5 percentage points apply.

The rates applicable to all other BOJ instruments remained unchanged.

04/02/2008 Interest rates paid on open market instruments issued by the Bank of Jamaica were revised as follows:

Tenor	**30 days**	**60 days**	**90 days**	**120 days**	**180 days**	**365 days**
Previous Rates (%)	12.65	12.70	12.70	12.85	13.00	13.50
New rate	**13.50**	**13.70**	**13.90**	**14.00**	**14.20**	**15.00**
Difference	85 bps	100 bps	120 bps	115 bps	120 bps	150 bps

The revisions reflected concerns about the rising trend in inflation and its impact on the attractiveness of Jamaica Dollar investments.

26/06/2008 Interest rates paid on Bank of Jamaica open market operations instruments were adjusted as follows:

Tenor	30 days	60 days	90 days	120 days	180 days	365 days
New rates (%)	**14.00**	**14.20**	**14.40**	**14.50**	**14.70**	**15.50**
Previous rates	13.50	13.70	13.90	14.00	14.20	15.00

The adjustment in rates was aimed at guiding domestic inflation towards a range of 12 – 15 per cent by March 2009, based on current projections for commodity prices.

01/09/2008 Bank of Jamaica offered a special 18-month, variable rate certificate of deposit (CD) to banks and primary dealers. The CD attracted a rate of 14.58 per cent for the first 3 months. Thereafter, quarterly interest payments at the 90-day weighted average Treasury Bill rate applicable at the beginning of each interest period plus a margin of 1.25 percentage points apply.

The rates applicable to all other BOJ instruments remained unchanged.

17/10/2008 Interest rates payable on Bank of Jamaica Certificates of Deposit were adjusted as follows:

Tenor	30 days	60 days	90 days	120 days	180 days	365 days
New rates	**14.65**	**14.85**	**15.05**	**15.15**	**15.35**	**16.70**
Previous rates	**14.00**	**14.20**	**14.40**	**14.50**	**14.70**	**15.50**

The adjustment will bring rates offered by the Central Bank in line with yields applicable to Government of Jamaica Treasury Bills and other short-dated market instruments.

12/11/2008 The Bank of Jamaica established "Intermediation Facilities" in foreign and domestic currencies, with a view to enhance the flow of credit to the financial market. The domestic currency section of the facility became operational on 24 November.

18/11/2008 In an effort to remove liquidity overhang arising from the maturity of both BOJ and GOJ securities, and preserve order in financial markets, the Bank of Jamaica implemented the following measures:

- The Bank offered a Special Certificate of Deposit to Primary Dealers and Commercial Banks, which matured on 3 December 2008. Interest payable on this instrument was 20.50% per annum. This instrument was offered from Tuesday, 18 November to Wednesday, 19 November 2008.

  BOJ's regular menu of CDs ranging from 30 days to 365 days remain

- Effective 3 December, 2008, on the expiration of a 15 day notice period, the cash reserve requirement of commercial banks, merchant banks and building societies was increased by 2 percentage points to 11 per cent of Jamaica Dollar liabilities. As a consequence, the liquid asset requirement rose to 25 per cent from 23 per cent. It was intended to increase these requirements by a further 3 percentage points.

These monetary policy actions are intended to support the achievement of the inflation objective and the maintenance of macro-economic stability.

01/12/2008 Interest rates payable on Bank of Jamaica Certificates of Deposit were adjusted as follows:

Tenor	30 days	60-days	90 days	120 days	180 days	365 days
New rates (%)	**17.00**	**17.50**	**20.00**	**20.20**	**21.50**	**24.00**
Previous rates	**14.65**	**14.85**	**15.05**	**15.15**	**15.35**	**16.70**

The increase in interest rates occurred in the context of instability in the foreign exchange market, which was related to the sharp rise in the yields on Government of Jamaica (GOJ) Global Bonds and USD Bonds issued by Jamaican companies. The resulting spike in demand for foreign exchange by securities dealers to meet margin calls from overseas creditors, together with incremental demand for foreign exchange by a wider cross-section of persons triggered a disorderly depreciation in the exchange rate. If this condition persisted, it would precipitate higher inflation and greater macroeconomic instability.

In context of the foregoing, the Jamaica Dollar liquidity resulting from the maturity of significant sums in BOJ securities over the next three weeks makes it necessary for BOJ to take this action. Accordingly, the rise in interest rates is expected to dampen the extraordinary demand related to portfolio decisions and thereby restore predictability and order to local financial markets.

03/12/2008 The cash reserve ratio (CRR) and the liquid assets ratio (LAR) in respect of only domestic currency liabilities of commercial banks, building societies and institutions licensed under the Financial Institutions Act were increased by 2 percentage points to 11% and 25% respectively.

02/01/2009 The CRR and the LAR for both domestic and foreign currency liabilities of commercial banks, institutions licensed under the Financial Institutions Act and building societies were increased by 2 percentage points to 13% and 27% respectively in the case of domestic currency liabilities and 11% and 25%, respectively in the case of foreign currency liabilities.

03/02/2009 The Bank of Jamaica established the Foreign Exchange Surrender Facility for public sector entities (PSE Facility). The aim of the facility is to centralize foreign currency demand of the public sector, especially Port Authority of Jamaica (PAJ), National Water Commission (NWC) and Petrojam. Under this facility Commercial Banks agreed to surrender fifteen percent (15%) of foreign currency purchases daily. The pre-existing requirement where Authorized Dealers and Cambios surrender within a range of five percent (5%) to ten percent (10%) of their gross foreign currency purchases from commercial clients remains in effect. Therefore commercial banks are to surrender, in total between twenty percent (20%) to twenty-five percent (25%) of foreign currency purchases daily.

06/02/2009 The CRR and the LAR in respect of Jamaica Dollar liabilities of deposit-taking institutions were increased by 1 percentage point to 14% and 28% respectively. The respective ratios relating to foreign currency liabilities remained unchanged at 11% and 25%.

The CRR and LAR are differentially applied to Building Societies. Domestic currency reserve requirements are based on meeting the 40% threshold of domestic currency denominated qualifying assets in relation to domestic currency deposits and withdrawable shares. Foreign currency requirements are determined by meeting the 40% threshold of all (domestic and foreign currency) qualifying assets against all deposits and withdrawable shares. Accordingly, cash reserve ratios of one percent and fourteen percent (1% and 14%) and the liquid assets ratios of five percent and 28 percent (5.0% and 28%) apply to Building Societies, depending on whether they meet the aforementioned 40 percent (40%) threshold in respect of the above-mentioned prescribed domestic currency liabilities.

Similarly, in the case of liabilities payable in foreign currency, cash reserve ratios of one percent and eleven percent (1% and 11%) and the liquid assets ratios of five percent and 25 percent (5.0% and 25%) apply, depending on whether the Societies meet the 40 percent (40%) threshold. Societies that meet the prescribed 'qualifying assets' threshold attract the lower cash reserve and liquid assets requirements. The higher requirements apply to those Societies which fail to meet the prescribed thresholds.

08/04/2009 The rate payable on a 1-year Certificate of Deposit issued by Bank of Jamaica was reduced to 22.67 per cent. Rates on other tenors remained unchanged.

Tenor	30 days	60 days	90 days	120 days	180 days	365 days
New rates (%)	**17.00**	**17.50**	**20.00**	**20.20**	**21.50**	**22.67**
Previous rates	17.00%	17.50%	20.00%	20.20	21.50%	24.00%

The previous rate of 24 per cent included a premium that the Bank had offered to encourage longer term placements by investors. The adjustment on the one-year CD removed that premium and brought the yield on a 1-year placement in line with that earned on a 180 – day BOJ instrument.. It was noted that while rates had been falling in recent auctions of Treasury Bills, the then current yield on a 6-month Bill remained above the comparable BOJ rate.

03/06/2009 The Bank of Jamaica temporarily ceased offering its 1-year OMO instrument to Primary Dealers and Commercial Banks.

24/07/2009 Interest rates applicable to Bank of Jamaica's open market instruments were reduced by 100 basis points.
The revised schedule of rates is as follows:

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	**16.00**	**16.50**	**19.00**	**19.20**	**20.50**
Previous rates	**17.00**	**17.50**	**20.00**	**20.20**	**21.50**

This action came against the background of positive trends in key monetary policy indicators. Notably, the twelve month point-to point rate of inflation as at June 2009 fell to 9.0 per cent, from 12.4 per cent at the end of fiscal year 2008/09 and 24.0 per cent as at June 2008. This outturn was underpinned by continued stability in the foreign exchange market. Additionally, the BOJ's gross foreign reserves had stabilized at US$1.6 billion.

The prospects for continued stability in money and foreign exchange markets were strengthened by the Government's decision to secure a Stand-by Arrangement with the International Monetary Fund. Finalization of an agreement would pave the way for additional inflows from other multilateral institutions and a reduction in the Government's reliance on domestic financing.

30/07/2009 Effective Thursday, 30 July 2009, the interest rates applicable to Bank of Jamaica's open market instruments will be reduced by 150 basis points across all tenors. The revised schedule of rates is as follows:

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	**14.50**	**15.00**	**17.50**	**17.70**	**19.00**
Previous rates	**16.00**	**16.50**	**19.00**	**19.20**	**20.50**

This further rate reduction occurred against the background of continued improvements in the money markets, reflected in the continued reduction in the yields on GOJ Treasury Bills. In addition, this action reflected the Bank's assessment that in the context of an extended period of stability in the foreign exchange market, inflation was likely to be lower than the 11 - 14 per cent range originally targeted for fiscal year 2009/2010. Further, the demand for foreign exchange to meet current payments and for portfolio purposes had slowed. In this context, the Bank's holdings of foreign exchange reserves remained adequate.

20/08/2009 Interest rates applicable to Bank of Jamaica's open market instruments were reduced by 100 basis points. The revised schedule of rates is as follows:

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	**13.50**	**14.00**	**16.50**	**16.70**	**18.00**
Previous rates	**14.50**	**15.00**	**17.50**	**17.70**	**19.00**

This rate adjustment came against the background of a notable decline in inflation and continued stability in the foreign currency market. The twelve month point-to point rate of inflation as at July 2009 declined further to 7.0 per cent, from 8.9 per cent in June 2009.

Inflation expectations, measured by regular surveys of the business sector, continued to fall as input costs had also stabilized over the past six months. This trend was expected to continue and, in conjunction with weak aggregate demand, should temper underlying inflation impulses.

17/09/2009 The rates offered on Certificates of Deposit issued by Bank of Jamaica were reduced by 100 basis points. The six-month benchmark rate therefore moved from 18.00 per cent per annum to 17.00 per cent. The full schedule of BOJ rates is set out below.

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	**12.50**	**13.00**	**15.50**	**15.70**	**17.00**
Previous rates	**13.50**	**14.00**	**16.50**	**16.70**	**18.00**

The adjustment to policy rates followed the better than expected inflation outturn for August 2009, which showed a further drop in the 12-month point-to-point inflation to 6.1 per cent from the 7.0 per cent reported for July. The stability of the exchange rate, the improvement in domestic agricultural supplies, and the moderate growth in domestic money supply, all point to the likelihood of single-digit inflation for fiscal year 2009/2010. The improved prospects for inflation and macroeconomic stability were reflected in market rates, with the downward trend in Treasury Bill yields and other short term rates. The easing of monetary policy was supported by the relatively strong position of the net international reserves of the Bank of Jamaica which stood at US$1.95 billion.

18/12/2009 Interest rates applicable to Bank of Jamaica's open market instruments were reduced by 200 basis points. The benchmark six-month rate will therefore move from 17 per cent per annum to 15 per cent. The full schedule of BOJ rates is set out below.

	30 days	**60 days**	**90 days**	**120 days**	**180 days**
New Rates (%)	**10.50**	**11.00**	**13.50**	**13.70**	**15.00**
Previous Rates (%)	**12.50**	**13.00**	**15.50**	**15.70**	**17.00**

The adjustment in interest rates occurred against the background of the positive trends in key economic indicators (inflation, the balance of payments and the exchange rate) which were expected to be sustained over the medium term. This outlook was underscored in the economic programme agreed with the Staff of the International Monetary Fund. The programme was underpinned by a package of policy measures geared towards fiscal and debt sustainability which was expected to lay the foundation for a stable macroeconomic environment and sustained growth.

06/01/2010 The Bank of Jamaica reduced the rate applicable to its open market overnight tenor by 50 basis points to 0.5 per cent.

12/01/2010 The Bank of Jamaica withdrew its offer of the 60-day to 180-day open market instruments.

15/01/2010 The Bank of Jamaica ceased accepting deposits under the special foreign currency deposit facility related to the 'Intermediation Facilities' established on 12 November 2008.

09/02/2010 The rate payable on 30-day open market instruments offered by the Bank of Jamaica was reduced by 50 basis points: from 10.50 per cent per annum to 10.0 percent per annum. The rates on the other tenor s remained unchanged.

The adjustment to the 30-day rate reflected the added boost to confidence that the IMF Board endorsement of a 27-month Stand-by Arrangement with Jamaica brought. On Monday, 8 February 2010, the Bank of Jamaica received half of the financial support approved by the Fund. As a result, the gross international reserves were approximately US$2.2 billion, representing approximately 16.9 weeks coverage of imports of goods and services. Additional foreign exchange inflows from other multilaterals were expected later in February. The receipt of these financial inflows was expected to provide the wherewithal for the Bank to underwrite continued stability in the foreign exchange market and would serve to reinforce the Bank's expectation of reduced inflation in 2010.

01/03/2010 The cash reserve requirement (CRR) in respect of foreign currency prescribed liabilities of deposit-taking institutions was reduced by two (2) percentage points to 9.0 per cent. As a consequence, the liquid asset requirement was also reduced by two (2) percentage points to 23.0 per cent. The cash reserve and liquid asset requirements applicable to Jamaica Dollar liabilities remained unchanged.

The reduction in the CRR followed the receipt of loan flows from multilateral financial institutions in February. These inflows put the BOJ in an enhanced position to maintain stability in the foreign exchange market.

The adjustment to the CRR, which returns the reserve requirements for foreign currency to the level that prevailed prior to December 2008, will allow deposit-taking institutions more latitude in the allocation of their foreign currency portfolios, including expanding credit to the business sector.

04/06/2010 The interest rate payable on Bank of Jamaica 30-day Certificate of Deposit was reduced by 50 basis points to 9.50 per cent. The adjustment occurred in the context of the abatement of inflationary impulses, particularly those related to the recent tax measures, and the moderation of the prices of key imported commodities, especially oil.

Secondary trading of securities as well as successive auctions of Treasury Bills indicated an endorsement of the new interest rate norms by the market. Additionally, the entrenchment of the lower interest rate structure was supported by the appreciation of the exchange rate and the reduction of sovereign credit risk as reflected in falling yields on internationally traded GOJ bonds.

Despite the interruption to economic activity in the Kingston Metropolitan Area during the week of 24 May, the Bank's assessment of the outlook for growth in FY2010/11 remained largely unchanged. Some fall-out in tourism-related earnings was anticipated in the short run but the prospective reopening of a major alumina processing plant in June 2010 and the maintenance of business activity throughout most of Jamaica was expected to contribute to a modest recovery in GDP growth in the current fiscal year.

The Bank believes that current reforms embedded in the Government's economic programme will lead to lasting improvements in public finances and debt management and the creation of a basis for longer term financial stability.

17/06/2010 The rate payable on Bank of Jamaica 30-day Certificate of Deposit was reduced by 50 basis points to 9.00 per cent.

The adjustment in the rate followed a better-than-expected inflation outturn for the preceding month. The fall in the general price level, together with the recent strengthening of the Jamaica Dollar, reinforced the likelihood that inflation would tend toward the lower end-point of the target range of 7.5 per cent to 9.5 per cent for fiscal year 2010/2011. Furthermore, the Bank's net international reserves which stood at US$1.75 billion were expected to outperform the benchmark set under the current IMF Stand-By Arrangement for end-June 2010. These resources constituted a strong buffer against financial or weather-related shocks that might otherwise threaten the achievement of the macroeconomic objectives

LIST OF SUMMARY TABLES

C. Summary Tables

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INFLATION RATES (%)	CPI Index (e.o.p)	Head-line Inflation (Quarter)	Core Inflation (Trimmed-Mean) (Quarter)
2002/2003			
June	62.0	1.6	0.7
September	63.4	2.3	0.7
December	65.0	2.5	0.9
March	64.7	-0.4	1.0
2003/2004			
June	68.5	5.9	2.5
September	71.5	4.4	2.0
December	73.9	3.4	1.4
March	75.4	2.0	1.6
2004/2005			
June	76.8	1.9	1.1
September	79.0	2.9	2.3
December	84.1	6.4	2.6
March	85.3	1.5	0.7
2005/2006			
June	90.0	5.5	2.1
September	93.8	4.2	1.2
December	94.6	0.9	0.6
March	94.9	0.2	0.9
2006/2007			
June	97.6	2.9	1.3
September	99.9	2.4	1.4
December	100.0	0.1	0.2
March	102.5	2.5	1.9
2007/2008			
June	105.1	2.5	1.3
September	108.9	3.6	1.9
December	116.8	7.3	4.0
March	122.9	5.2	3.5
2008/2009			
June	130.3	6.0	3.4
September	136.5	4.7	2.0
December	136.5	0.0	1.1
March	138.2	1.3	1.1
2009/2010			
June	142.0	2.7	1.3
September	146.3	3.1	1.5
December	150.4	2.8	1.4
March	156.6	4.1	1.8
2010/2011			
June	160.7	2.6	1.1

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COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
April – June 2010

Divisions, Classes and Groups	Weight in CPI	Inflation (%)	Weighted Inflation	Contribution (%)
FOOD & NON-ALCOHOLIC BEVERAGES	0.3746	1.11	0.42	21.6
Food	0.3512	1.16	0.41	21.1
- Bread and Cereals	0.0610	1.10	0.07	3.5
- Meat	0.0766	0.06	0.00	0.2
- Fish and Seafood	0.0533	1.14	0.06	3.2
- Milk, Cheese and Eggs	0.0311	-0.51	-0.02	-0.8
- Oils and Fats	0.0164	-2.22	-0.04	-1.9
- Fruit	0.0114	2.80	0.03	1.7
- Vegetables and Starchy Foods	0.0686	3.87	0.27	13.8
- Sugar, Jam, Honey, Chocolate and Confectionery	0.0172	0.24	0.00	0.2
- Food Products (not elsewhere classified)	0.0155	1.76	0.03	1.4
Non-Alcoholic Beverages	0.0235	0.41	0.01	0.5
- Coffee, Tea and Cocoa	0.0066	0.00	0.00	0.0
- Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	0.0169	-1.10	-0.02	-1.0
ALCOHOLIC BEVERAGES AND TOBACCO	0.0138	0.35	0.00	0.3
CLOTHING AND FOOTWEAR	0.0333	-0.23	-0.01	-0.4
Clothing	0.0212	-1.37	-0.03	-1.5
Footwear	0.0122	1.78	0.02	1.1
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	0.1276	5.97	0.76	39.5
Rentals for Housing	0.0352	10.55	0.32	16.5
Maintenance and Repair of Dwelling	0.0080	4.39	0.04	1.8
Water Supply and Miscellaneous Services Related to the Dwelling	0.0132	2.79	0.04	1.9
Electricity, Gas and Other Fuels	0.0712	4.83	0.34	17.8
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE	0.0493	-0.42	-0.02	-1.1
Furniture and Furnishings	0.0069	2.89	0.02	1.0
Household Textiles	0.0032	0.19	0.00	0.0
Household Appliances	0.0056	2.49	0.01	0.7
Glassware, Tableware and Household Utensils	0.0005	3.15	0.00	0.1
Tools and Equipment for House and Garden	0.0015	1.91	0.00	0.1
Goods and Services for Routine Household Maintenance	0.0316	-1.87	-0.06	-3.1
HEALTH	0.0329	0.48	0.02	0.8
Medical Products, Appliances and Equipment	0.0122	0.41	0.01	0.3
Health Services	0.0207	0.52	0.01	0.6
TRANSPORT	0.1282	2.25	0.29	14.9
COMMUNICATION	0.0399	-0.01	0.00	0.0
RECREATION AND CULTURE	0.0336	1.50	0.05	2.6
EDUCATION	0.0214	9.04	0.19	10.0
RESTAURANTS & ACCOMMODATION SERVICES	0.0619	1.91	0.12	6.1
MISCELLANEOUS GOODS AND SERVICES	0.0837	1.30	0.11	5.6
ALL DIVISIONS	1.0000	1.9	1.9	100.0

2B

REGIONAL INFLATION
April – June 2010

Divisions, Classes and Groups	GKMA	Other Urban Centres	Rural Areas
FOOD & NON-ALCOHOLIC BEVERAGES	2.4	3.0	3.0
Food	2.4	3.1	3.0
- Bread and Cereals	1.3	1.4	0.5
- Meat	0.4	3.3	1.3
- Fish and Seafood	2.1	2.8	3.5
- Milk, Cheese and Eggs	2.3	3.4	1.4
- Oils and Fats	4.9	3.8	3.0
- Fruit	2.8	2.9	5.4
- Vegetables and Starchy Foods	4.5	4.9	7.1
- Sugar, Jam, Honey, Chocolate and Confectionery	2.5	1.9	3.9
- Food Products n.e.c.	4.1	1.8	4.6
Non-Alcoholic Beverages	2.1	2.3	2.0
- Coffee, Tea and Cocoa	2.0	1.9	1.7
- Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	2.1	2.4	2.2
ALCOHOLIC BEVERAGES AND TOBACCO	4.3	1.3	0.2
CLOTHING AND FOOTWEAR	2.6	2.2	1.6
Clothing	2.8	2.2	1.8
Footwear	2.5	2.2	1.2
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	2.3	-0.9	-2.4
Rentals for Housing	10.9	5.9	5.5
Maintenance and Repair of Dwelling	1.5	1.7	0.6
Water Supply and Miscellaneous Services Related to the Dwelling	-0.5	-0.5	-0.5
Electricity, Gas and Other Fuels	-5.0	-5.1	-4.6
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE	1.3	2.5	1.7
Furniture and Furnishings	0.8	2.9	2.9
Household Textiles	1.5	4.5	1.4
Household Appliances	2.0	4.0	3.4
Glassware, Tableware and Household Utensils	1.7	5.0	1.0
Tools and Equipment for House and Garden	1.0	4.3	0.6
Goods and Services for Routine Household Maintenance	1.3	2.0	1.2
HEALTH	0.1	0.6	0.5
Medical Products, Appliances and Equipment	0.2	0.5	0.2
Health Services	0.1	0.7	0.7
TRANSPORT	33.1	-0.1	0.9
COMMUNICATION	0.0	0.0	0.0
RECREATION AND CULTURE	0.3	1.1	0.3
EDUCATION	0.0	2.6	2.6
RESTAURANTS & ACCOMMODATION SERVICES	1.1	1.1	0.4
MISCELLANEOUS GOODS AND SERVICES	1.0	0.1	2.4
ALL DIVISIONS	4.8	1.5	1.5

3

BANK OF JAMAICA OPERATING TARGETS

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10[p]
Net International Reserves (US$MN)	1 772.94	1 628.6	1 619.4	1 933.2	1 729.4	1 751.9	1 795.8
Net International Reserves ($JMN)	128 520.4	132 224.4	144 110.8	172 039.0	154 517.4	156 530.5	160 451.1
- Assets	130151.4	135 054.7	147 777.2	178 627.8	156 527.8	215 728.4	225 761.5
- Liabilities	-1631.0	-2 830.3	-3 666.4	-6 588.8	-2 010.4	-59 197.9	65 310.4
Net Domestic Assets	-57 021.8	-61 021.9	-71 411.9	-99 910.0	-73 401.3	-79 208.0	-82 693.3
-Net Claims on the Public Sector	123 972.4	128 337.6	139 561.4	109 213.8	128 947.4	119 618.2	103 764.3
- Net Credit to Banks	- 14 270.5	-17 461.4	-17 679.8	-17 783.0	-16 886.6	-14 539.0	-14 040.6
- Open Market Operations	-1 31 928.8	- 119 337.6	-120 774.3	-118 502.6	-112 011.3	-121 349.2	-110 710.8
- Other	-34 794.9	-52 560.5	-72 519.2	-72 838.3	-73 450.7	-62 938.0	-61 706.2
Monetary Base	71 498.6	71 202.5	72 698.9	72 129.0	81 116.2	77 322.4	77 757.8
- Currency Issue *	49 025.6	42 128.7	43 207.7	43 427.6	51 856.2	46965.1	46 523.5
- Cash Reserve	21 983.4	28 927.0	29 429.4	28 551.6	29 204.9	29 734.5	30 312.1
- Current Account	489.6	146.8	61.8	149.8	55.1	622.8	922.2
% change Monetary Base (F-Y-T-D)	21.5	21.0	2.1	1.3	13.9	8.6	0.6

** Excludes BOJ’s teller cash; p: preliminary*

4

MONETARY AGGREGATES (End-of-Period) (J$MN)	M1J	M1*	M2J	M2*	M3J	M3*
2005/2006						
June [r]	52 942.5	62 310.9	142 111.3	212 032.6	185 090.2	255 011.5
September	53 089.8	63 212.3	143 430.0	216 480.9	188 253.9	261 304.7
December	62 572.8	72 736.2	155 248.0	228 320.7	200 537.3	273 609.9
March	58 617.7	69 800.3	153 618.0	228 524.9	202 804.6	277 711.5
2006/2007						
June	61 908.1	71 897.4	159 153.6	232 227.4	208 718.0	281 791.8
September	64 668.9	73 233.3	162 466.8	234 331.2	214 812.8	286 677.2
December	78 180.3	87 446.4	181 792.9	256 975.7	235 544.9	310 727.7
March	70 936.5	80 588.3	175 367.2	253 125.3	231 304.0	309 062.2
2007/2008						
June	74 603.1	85 666.8	182 099.9	266 428.9	237 729.8	322 058.8
September	75 563.7	90 053.6	185 371.1	280 698.4	242 607.4	337 934.7
December	89 116.4	105 258.4	202 344.5	299 970.7	262 637.7	360 263.9
March	77 282.4	88 283.8	189 209.4	284 765.0	251 993.7	347 549.2
2008/2009						
June	82 507.0	89 946.4	197 782.9	291 010.2	265 442.6	358 669.8
September	83 536.5	90 900.7	199 542.5	292 918.6	268 505.6	361 867.2
December	91 017.9	100 097.1	210 962.0	313 194.9	279 396.0	381 628.9
March	85 515.2	96 779.2	202 838.0	317 676.1	275 187.2	390 025.3
2009/2010						
June	88 256.7	98 380.5	206 295.9	319 337.5	282 473.0	395 514.7
September	87 911.6	97 379.0	206 828.6	316 834.7	287 586.8	397 593.0
December	97 733.4	107 958.9	216 803.4	332 151.2	301 336.5	416 684.3
March	89 918.9	101 450.8	210 444.8	327 227.5	295 316.8	412 099.6
2010/2011						
June	93 074.2	102 810.4	218 702.2	331 549.5	306 741.3	419 588.6

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

5

COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY (Quarterly Flows - J$MN)	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09[r]	Dec-09[p]	Mar-10[p]	Jun-10[p]
M2J	**1 759.6**	**11 412.2**	**-8 116.8**	**3 457.9**	**532.7**	**9 974.9**	**-6 358.7**	**8 257.5**
Currency	-1 887.5	8 393.0	-5 148.0	**1 285.8**	**-700.5**	**7 181.9**	**-4 029.4**	**-106.6**
Demand Deposits	2 917.0	-921.0	-345.3	**1 455.8**	**355.4**	**2 639.9**	**-3 785.1**	**3 262.0**
Savings Deposits	-1 977.3	2 034.2	-164.5	1 667.3	133.1	637.1	1 514.5	2 509.1
Time Deposits	2 707.4	1 906.0	-2 459.0	-951.0	744.7	-484.0	-58.7	2 593.0
OTHER DEPOSITS	**1 303.4**	**-549.8**	**3 936.0**	**3 827.9**	**4 581.1**	**3 591.4**	**339.0**	**3 167.1**
TOTAL (M3J)	**3 063.0**	**10 862.4**	**-4 180.8**	**7 285.8**	**5 113.8**	**13 566.3**	**-6 019.7**	**11 424.6**
SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY								
N.I.R. of B.O.J.	**2 863.2**	**-34 660.4**	**-11 720.6**	**-816.6**	**27 928.3**	**-18 144.1**	**2 013.1**	**3 920.6**
M&LTFL of B.O.J	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Banking System Credit	**-5 157.6**	**39 128.0**	**2 572.9**	**18 502.8**	**5 766.5**	**20 790.4**	**-24 742.5**	**3.0**
Public Sector	**-9 000.4**	**35 483.6**	**3 232.6**	**16 913.0**	**6 492.4**	**21 707.8**	**-28 775.0**	**-9 223.3**
Private Sector	**3 842.8**	**3 644.4**	**-659.7**	**1 589.8**	**-725.9**	**-917.4**	**4 032.5**	**9 226.3**
Open Market Operations	**4 615.9**	**14 291.0**	**12 591.2**	**-1 436.8**	**2 271.9**	**6 491.2**	**-9 337.9**	**10 638.4**
Other	**741.5**	**-7 896.2**	**-7 624.3**	**-8 963.6**	**-30 852.9**	**4 428.8**	**26 047.6**	**-3 137.4**
TOTAL	**3 063.0**	**10 862.4**	**-4 180.8**	**7 285.8**	**5 113.8**	**13 566.3**	**-6 019.7**	**11 424.6**
Memo:								
Foreign Currency Deposits (Private Sector)	**148.9**	**3 625.8**	**3 620.4**	**- 1 796.4**	**-3 035.5**	**5 341.6**	**1 435.0**	**- 3 935.5**
Foreign Currency Loans (Private Sector)	**5 987.2**	**7 925.2**	**321.5**	**-1 909.6**	**-729.8**	**-1 120.2**	**-6 812.7**	**-8 454.7**

- p - preliminary

r - revised

6A

COMMERCIAL BANKS' SELECTED INTEREST RATES (%)
(End-of-Period)

	Fixed Deposits *		Savings Deposits (Average) r	Lending Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
	3-6 months	6-12 months					
2002/2003							
June	7.75–13.25	7.75–13.25	9.00	25.92	9.28	18.15	14.68
September	7.75–13.25	7.75–13.25	8.86	26.25	8.98	18.08	13.88
December	7.75–13.25	7.75–13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50-13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50–13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	7.24	25.60	8.68.	19.32	24.08
March	8.50–13.25	8.50-13.50	6.78	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 – 13.25	8.50-13.50	6.61	25.02	8.15	17.75	15.75
September	8.50 - 13.25	8.50-13.50	6.61	24.95	7.99	17.76	8.38
December	3.00 – 14.10	3.50–14.30	6.48	24.89	7.78	17.72	12.95
March	3.00 – 14.10	3.50–14.30	6.36	24.89	7.54	17.35	12.58
2005/2006							
June	3.00–14.10	3.50-14.30	5.52	24.70	7.34	16.43	10.00
September	2.50- 14.10	3.00–14.30	5.48	22.00	7.11	17.41	11.13
December	2.50- 14.10	3.00–14.30	5.48	22.00	7.00	17.32	12.42
March	2.50- 14.10	3.00–14.30	5.30	21.84	7.17	17.54	10.00
2006/2007							
June	2.50- 14.10	3.00–14.30	5.39	22.50	7.17	17.60	9.00
September	2.50- 14.10	3.00–14.30	5.36	21.80	6.88	17.83	9.13
December	2.50- 14.10	3.00–14.30	5.20	21.90	6.60	17.59	8.10
March	2.50- 14.10	3.00–14.30	5.15	22.49	6.94	17.28	7.75
2007/2008							
June	6.80 - 10.95	6.50 - 11.60	5.17	22.49	6.96	17.23.	9.67
September	6.80 - 11.85	6.50 – 12.35	4.88	21.08	6.85.	17.06	10.50
December	6.80 - 11.85	6.50 – 12.35	4.88	20.82	6.99	17.11	7.58
March	6.80 – 12..85	6.50 – 13.35	4.88	22.47	6.82	17.33	8.29
2008/2009							
June	6.80 – 12..85	6.50 – 13.35	5.05	21.46	6.94.	16.97	11.67
September	7.30 - 12.85	7.00 – 13.35	5.54	23.18	7.03	16.46	8.67
December	7.30 - 12.85	7.00 – 13.35	5.33	23.17	7.37	16.78	24.50
March	7.30 – 16.33	7.00 - 18.11	5.89	22.34	6.99	16.58	8.29
2009/2010							
June	7.30 – 18.20	7.00 – 19.00	5.87	23.32	7.08	16.49	8.07
September	7.30 – 15.49	7.00 – 15.75	5.86	22.26	6.69	16.30	7.39
December	6.75 – 12.86	7.55 – 13.52	5.35	21.62	6.40	16.19	8.64
March	5.35 – 9.82	5.00 – 9.98	4.09	21.51	5.41	16.47	6.57
2010/2011							
June	4.75 – 8.50	4.75 – 10.00	3.90	20.72	4.56	16.03	5.20

**Relate to deposits of $100 000 and over.*

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	1-month	3-month	6-month	9-month	12-month
2001/2002					
June		23.48	16.20		
September		22.23	15.10	15.50	
December		22.12	17.03		
March		21.49	14.30		14.96
2002/2003					
June			13.81		14.77
September			16.69	16.98	
December			17.01		
March			33.47		
2003/04					
June			28.46		
September			23.42	23.87	
December			22.05		
March		15.23	15.57		
2004/05					
June		15.04	14.98	15.18	
September		14.41	14.80		16.36
December		14.41	14.94		
March		13.21	13.46	14.00	
2005/2006					
June		12.85	12.88		
September		12.96	13.15		
December		13.34	13.55		
March		13.16	13.18		
2006/2007					
June		12.64	12.82		
September		12.44	12.49		
December		12.26	12.31		
March		11.55	11.65		
2007/2008					
June		11.98	12.13		
September		14.34	14.29		
December		12.89	13.34		
March		13.97	14.22		
2008/2009					
June		14.19	14.43		
September		14.81	15.35		
December		22.01	24.45		
March		20.51	21.77		
2009/2010					
June		19.58	21.05		
September		16.39	17.35		
December		15.95	16.80		
March		10.18	10.49		
2009/2010					
June	8.98	8.52	9.26		

7

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

Tenor of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95
2004/2005							
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40
September	14.00	14.10	14.20	14.35	14.80	15.35	16.00
December	13.80	13.95	14.05	14.15	14.30	15.00	15.50
March	12.95	13.10	13.20	13.30	13.45	14.00	14.50
2005/2006							
June	12.60	12.70	12.75	12.85	13.00	13.25	13.60
September	12.60	12.70	12.75	12.85	13.00	13.25	13.60
December	12.60	12.70	12.75	12.85	13.00	13.25	13.60
March	12.60	12.70	12.75	12.85	13.00	13.25	13.60
2006/2007							
June*	12.45	12.50	12.60	12.65	12.80	...	...
September	11.95	12.00	12.10	12.15	12.30	...	...
December	11.65	11.70	11.80	11.85	12.00	...	...
March	11.65	11.70	11.80	11.85	12.00	...	...
2007/2008							
June	11.65	11.70	11.80	11.85	12.00	...	...
September	11.65	11.70	11.80	11.85	12.00	...	14.00
December	11.65	11.70	11.80	11.85	12.00	...	13.46
March	13.50	13.70	13.90	14.00	14.20	...	15.00
2008/2009							
June	14.00	14.20	14.40	14.50	14.70	...	15.50
September	14.00	14.20	14.40	14.50	14.70	...	15.50
December	17.00	17.50	20.00	20.20	21.50	...	24.00
March	17.00	17.50	20.00	20.20	21.50	...	24.00
2009/2010							
June	17.00	17.50	20.00	20.20	21.50	...	22.67
September	12.50	13.00	15.50	15.70	17.00	...	...
December	10.50	11.00	13.50	13.70	15.00	...	...
March	10.00	...	...	...	...	...	...
2009/2010							
June	9.00	...	...	...	...	...	...

Note: Bank of Jamaica ceased accepting placements for 270-day tenors on 18 April 2006.

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
April - June 2010

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
23 April	*FR 10.25% Treasury Bond 2010*	*15 176.4*	*10.25*
21 May	*FR 11.0% BMI Note 2010*	*12 265.0*	*11.0*

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

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
April - June 2010

Issue Date	Stock Name	Features	Amount raised J$M
22 April	*FR 12.25% BMI Note 2013 (re-opened)*	*First issued 24 February 2010. Tenor of two years and ten months. First interest payment will become due and payable on 24 August 2010. Thereafter, interest will become due and payable semi-annually, until maturity.*	*14 180.2*
22 April	*FR 12.625% BMI Note 2016 (re-opened)*	*First issued 24 February 2010. Tenor of five years and ten months. First interest payment will become due and payable on 24 August 2010. Thereafter, interest will become due and payable semi-annually, until maturity.*	*1 361.9*
22 April	*FR 13.25% BMI Note 2040 (re-opened)*	*First issued 24 February 2010. Tenor of thirty nine years and nine months. First interest payment will become due and payable on 24 August 2010. Thereafter, interest will become due and payable semi-annually, until maturity.*	*1 815.2*
14 May	*FR 12.0% BMI Note 2014*	*Tenor of 4 years. Interest rate fixed at 12.0%. First interest payment becomes due and payable on November 12, 2010. Thereafter, interest will become due and payable semi-annually, until maturity.*	*15 233.0*
7 June	*FR 13.25% BMI Note 2040 (re-opened)*	*First issued 24 February 2010. Tenor of thirty nine years and nine months. First interest payment will become due and payable on 24 August 2010. Thereafter, interest will become due and payable semi-annually, until maturity.*	*1 947.7*
7 June	*FR 12.0% BMI Note 2012 (re-opened)*	*First issued 24 February 2010. Tenor of one year and nine months. First interest payment will payment will become due and payable on 24 August 2010. Thereafter, interest will become due and payable semi-annually, until maturity.*	*16 289.8*

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

9

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
2004/2005	**82.1**	**825.0**	**87.0**	**8.2**	**74.2**	**272.6**	**216.3**	**1 565.4**
December	8.6	237.8	0.0	0.0	19.6	74.1	58.2	398.3
March	25.8	210.6	31.4	0.0	15.1	61.3	37.0	381.2
2005/2006	**100.6**	**957.5**	**89.4**	**7.7**	**65.3**	**418.1**	**170.0**	**1 808.6**
June	22.6	245.2	41.5	2.1	17.2	61.9	48.6	439.1
September	24.8	233.3	3.8	1.3	18.2	106.8	38.9	427.1
December	25.7	231.1	0.0	1.3	9.0	111.6	38.2	416.9
March r	27.5	247.9	44.1	3.0	20.9	137.8	48.4	529.6
2006/2007 r	**115.2**	**1 083.7**	**90.4**	**13.3**	**79.1**	**631.5**	**188.5**	**2 201.7**
June	29.4	258.8	43.0	3.2	25.0	144.8	46.0	550.2
September	29.4	268.7	2.6	3.8	20.1	166.0	44.2	534.8
December	27.0	265.2	0.0	3.4	14.8	161.4	47.2	519.0
March	29.4	291.0	44.8	2.9	19.2	159.3	51.1	597.7
2007/2008 r	**112.7**	**1 213.7**	**104.9**	**6.4**	**83.8**	**797.1**	**225.3**	**2 543.9**
June	28.5	315.3	42.4	4.5	21.8	173.3	47.6	633.4
September	28.3	267.7	13.1	1.9	22.6	155.7	54.5	543.8
December	26.7	320.0	0.0	0.0	21.2	162.3	57.6	587.8
March r	29.2	310.7	49.4	0.0	18.2	305.8	65.6	778.9
2008/2009 r	**105.5**	**1 039.3**	**92.6**	**0.0**	**82.6**	**727.5**	**266.8**	**2 314.3**
June	29.6	366.9	43.0	0.0	24.9	251.6	80.4	796.4
September	28.8	304.1	11.8	0.0	25.6	253.4	77.8	701.5
December	26.9	248.8	0.0	0.0	11.9	128.8	50.8	467.2
March	20.2	119.5	37.8	0.0	20.2	93.7	57.8	349.2
2009/2010	**95.7**	**333.1**	**57.8**	**0.0**	**90.8**	**575.1**	**253.7**	**1 406.2**
June p	14.4	81.6	26.7	0.0	26.7	153.3	55.5	358.2
September	23.9	84.5	7.8	0.0	26.0	168.8	59.9	370.9
December r	26.9	82.4	0.0	0.0	17.5	114.7	66.3	307.8
March p	30.5	84.6	23.3	0.0	20.6	138.3	72.0	369.3

r-revised; p-preliminary

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BALANCE OF PAYMENTS QUARTERLY SUMMARY (US$MN)

	Sep-08 r	Dec-08r	Mar-09r	Jun-09r	Sep-09r	Dec-09r	Mar-10p
1. Current Account	**-936.0**	**-484.2**	**-164.6**	**-97.3**	**-274.2**	**-388.8**	**1.1**
A. Goods Balance	**-1 417.6**	**-939.1**	**-749.0**	**-671.0**	**-804.4**	**-899.0**	**-699.0**
Exports (f.o.b.)	701.5	467.2	**349.2**	358.2	370.9	307.8	369.3
Imports (f.o.b.)	2 119.1	1 406.3	1 098.2	1 029.2	1 175.3	1 206.8	1 068.3
B. Services Balance	**35.0**	**102.3**	**261.2**	**214.1**	**140.0**	**126.1**	**315.6**
Transportation	-189.3	-138.3	-82.9	-79.0	-99.4	-112.1	-64.5
Travel	376.6	386.1	502.4	440.1	385.2	381.4	548.9
Other Services	-152.3	-145.5	-158.3	-147.0	-145.8	-143.2	-168.8
Goods & Services Balance	**- 1382.6**	**-836.8**	**-487.8**	**-456.9**	**-664.4**	**-772.9**	**-383.4**
C. Income	**-108.4**	**-163.6**	**-150.5**	**-141.4**	**-154.6**	**-139.8**	**-129.0**
Compensation of Employees	28.2	36.0	1.6	6.8	20.5	29.7	0.8
Investment Income	-136.6	-199.6	-152.1	-148.2	-175.1	-169.5	-129.8
D. Current Transfers	**555.0**	**516.2**	**473.7**	**501.0**	**544.8**	**523.9**	**513.5**
General Government	24.9	24.4	31.9	25.7	66.8	24.3	27.0
Other Sectors	530.1	491.8	441.8	475.3	478.0	499.6	486.5
2. Capital & Financial Account	**936.0**	**484.2**	**164.6**	**97.3**	**274.2**	**388.8**	**-1.1**
A. Capital Account	**11.3**	**-7.9**	**32.1**	**-9.0**	**-4.7**	**-8.7**	**-5.7**
Capital Transfers	11.2	-7.9	32.1	-9.0	-4.7	-8.7	-5.7
General Government	19.1	0.0	41.9	0.0	3.4	0.0	4.0
Other Sectors	-7.8	-7.9	-9.8	-9.0	-8.1	-8.7	-9.7
Acq./disp. Of non-produced non-fin. Assets	0.0	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
B. Financial Account	**924.7**	**492.1**	**132.5**	**106.3**	**278.9**	**397.5**	**4.6**
Official Investment	333.0	-39.4	-179.7	-33.4	291.4	171.1	428.3
Private Investment (including net errors & omissions)	613.9	53.4	167.8	130.5	301.4	22.5	-401.2
Reserves	-22.3	478.1	144.4	9.2	-313.9	203.9	-22.5

r: revised
p: provisional

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FOREIGN EXCHANGE SELLING RATES

(J$ per unit of foreign currency-end of period)

	US$	Can$	GB£
2004/2005			
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52
September	62.89	53.61	110.02
December	64.58	54.95	110.40
March	65.50	56.14	112.94
2006/2007			
June	66.03	59.50	120.19
September	66.06	59.10	123.48
December	67.15	57.53	131.53
March	67.80	58.75	132.40
2007/2008			
June	68.58	64.81	136.60
September	70.41	70.38	142.28
December	70.62	71.39	140.32
March	71.09	69.75	141.15
2008/2009			
June	71.89	71.49	142.55
September	72.68	69.49	130.35
December	80.47	65.54	116.84
March	88.82	71.97	129.02
2009/2010			
June	89.07	76.84	148.08
September	89.08	82.76	142.16
December	89.60	84.57	143.55
March	89.51	88.06	135.07
2010/2011			
June	86.02	82.26	128.58

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

	Gross Foreign Assets (US$MN)	Gross Foreign Liabilities (US$MN)	International Reserves (Net) (US$MN)	*Weeks of Imports*	
				Goods	Goods & Services
2003/2004					
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1901.6	27.5	18.8
2005/2006					
June	2 179.3	22.5	2 156.8	28.1	19.5
September	2 243.0	124.0	2 119.0	27.0	19.1
December	2 169.0	81.6	2 087.4	27.0	19.0
March	2 372.9	294.8	2 078.1	28.3	20.1
2006/2007					
June	2 293.2	183.2	2 110.0	22.9	16.7
September	2 474.7	132.7	2 342.0	26.1	18.8
December	2 399.1	81.6	2 317.5	25.2	18.2
March	2 613.6	284.3	2 329.3	27.1	19.5
2007/2008					
June	2 472.3	233.4	2 238.9	24.5	17.7
September	1 943.2	27.0	1 916.2	18.2	13.2
December	1 905.8	28.1	1 877.7	16.8	12.3
March	2 105.90	22.50	2 083.40	18.0	13.3
2008/2009					
June	2 476.8	248.0	2 228.8	21.2	15.6
September	2 280.5	29.4	2 251.1	18.0	13.3
December	1 795.4	22.5	1 772.9	14.8	10.9
March	1 663.4	34.8	1 628.6	12.2	9.2
2009/2010					
June	1 660.6	41.2	1 619.4	18.5	13.1
September	2 007.2	74.0	1 933.2	22.1	15.6
December	1 758.9	22.5	1 736.4	19.2	13.5
March	2 414.4	662.5	1 751.9	26.5	18.6
2010/2011					
June	2 526.7	730.9	1 795.8	25.4	18.6

13

JAMAICA STOCK EXCHANGE ACTIVITIES	Main Market			Junior Market		
	JSE Market Index	Volume Traded (MN.)	Value of Stocks Traded (J$MN.)	Junior Market Index	Volume Traded (MN.)	Value of Stocks Traded (J$MN.)
2004/2005						
March	111 931.2	920.4	18 029.3			
2005/2006						
June	110 621.9	866 .8	14 136.8			
September	103 332.6	387.8	4 189.6			
December	104 510.4	323.1	4 391.0			
March	86 896.1	366.5	4 513.8			
2006/2007						
June	85 108.2	1 882.6	10 627.1			
September	86 196.0	610.4	3 441.1			
December	100 678.0	2 823.9	18 459.0			
March	90 595.1	556.1	7 662.6			
2007/2008						
June	90 069.9	352.4	2 762.0			
September	96 299.8	884.7	5 013.4			
December	107 968.0	640.3	13 609.5			
March	107 439.3	678.2	9 817.1			
2008/2009						
June	109 754.0	1 117 .5	13 665.7			
September	102 018.9	637.8	39 352.8			
December	80 152.0	519.6	4 191.3			
March	79 022.6	657.7	2 248.7			
2009/2010						
June	80 866.1	191.8	1 396.5			
September	79 928.0	339.0	2 960.3			
December	83 322.0	517.6	5 584.5	150.0	0.1	1.5
March	86 010.6	1 782.1	5 918.2	177.8	0.8	23.8
2010/2011						
June	86 333.6	360.2	4 629.5	245.6	4.1	23.9

Note: Both volume and value reflect ordinary and block quarterly transactions;
Trading on the Junior Market commenced in October 2009.

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PUBLIC SECTOR DOMESTIC SECURITIES
Outstanding Stocks

(J$MN)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
2003/2004				
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.5	3 750.0	210 300.0.	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	220 529.2	4 050.0	231 749.8	167 485.1
September	220 059.0	3 800.0	244 195.7	168 108.2
December	225 762.8	3 500.0	240 934.0	149 806.5
March	235 632.7	3 800.0	233 643.7	157 357.6
2006/2007				
June	236 668.6	4 200.0	249 662.1	159 438.0
September	231 237.9	4 600.0	285 901.2	166 018.9
December	229 978.3	4 700.0	294 773.2	154 757.0
March	226 631.1	4 200.0	276 155.1	165 704.0
20007/2008				
June	232 363.8	4 200.0	297 276.0	150 758.3
September	226 746.9	4 200.0	315 256.5	129 771.5
December	224 228.4	4700.0	324 929.2	114 741.3
March	223 581.6	4 200.0	330 008.5	138 179.1
2008/2009				
June	218 100.0	4 200.0	344 170.3	150 835.7
September	213 495.2	4 300.0	357 755.7	146 219.8
December	205 120.1	4 194.5	392 220.6	131 928.8
March	201 936.1	4 094.5	438 381.6	119 337.6
2009/2010				
June	196 457.9	3 955.7	469 957.3	120 774.3
September	185 922.4	4 066.9	525 540.7	118 502.6
December	180 573.5	3 813.4	564 076.7	112 011.3
March	n.a.	4 000.0	n.a.	121 349.2
2010/2011				
June	n.a.	4 400.0	n.a.	110 710.8

n.a. – not available

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

	Crude Bauxite*	Alumina	Total Bauxite**	Sugar	Bananas***
2004/2005	**3 451.4**	**4 028.5**	**13 411.9**	**142.0**	**18.1**
December	398.5	1 062.6	3 030.0	3.6	0.0
March	1 074.6	1 052.8	3 620.1	74.7	0.0
2005/2006	**4 099.7**	**4 048.7**	**14 167.4**	**151.0**	**18.8**
June	916.0	1 061.8	3 508.3	51.6	4.5
September	1 022.3	1 013.7	3 544.5	0.0	3.6
December	1 035.9	957.4	3 442.6	5.4	3.5
March	1 125.5	1 015.8	3 672.0	94.0	7.2
2006/2007	**4 594.3**	**4 105.2**	**14 905.5**	**144.0**	**30.5**
June	1 136.3	1 053.4	3 779.2	46.3	6.9
September	1 186.5	1 003.9	3 724.6	0.0	9.4
December	1 099.7	1 026.5	3 675.2	2.3	8.4
March	1 171.8	1 021.4	3 726.5	95.4	5.8
2007/2008	**4 386.2**	**3 897.8**	**14 523.0**	**156.9**	**11.7**
June	1 089.7	1 044.3	3 775.3	59.7	8.1
September	1 123.1	908.9	3 489.6	6.9	3.6
December	1 033.3	966.4	3 597.2	9.4	0.0
March	1 140.1	978.2	3 660.9	80.9	0.0
2008/2009	**3 916.7**	**3 856.3**	**13 614.4**	**139.4**	**0.0**
June	1 020.4	1 153..9	3 794.4	54.8	0.0
September	1 115.0	980.5	3 6 18.7	4.2	0.0
December	1 043.0	1 011.8	3 622.5	0.2	0.0
March	738.3	710.1	2 575.2	80.2	0.0
2009/2010	**3 465.3**	**1 513.5**	**7 347.5**	**133.9**	**0.0**
June	546.2	471.0	**1 698.6**	**42.9**	**0.0**
September	883.6	337.8	**1 765.4**	**2.4**	**0.0**
December	1 032.2	353.9	**1 968.0**	**4.9**	**0.0**
March	1 003.3	350.8	**1 915.5**	**83.7**	**0.0**
2010/2011					
June	1 109.4	332.9	**2 047.8**	**30.9**	**0.0**

** Crude Bauxite = Bauxite mined for export*
***Total Bauxite Exports = Crude bauxite + bauxite converted to alumina*
****Banana Exports*

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QUARTERLY GROSS DOMESTIC PRODUCT: VALUE ADDED BY INDUSTRY
REAL GROWTH RATES (2003 PRICES)
December 2007 – December 2009 (Seasonally Unadjusted)

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Total Value Added at Basic Prices	**-0.7**	**-0.4**	**-1.2**	**-1.0**	**-1.2**	**-2.9**	**-3.5**	**-2.1**	**-2.2**
Agriculture, Forestry & Fishing	-28.7	-17.1	-9.8	-0.5	13.8	8.3	10.7	12.1	17.6
Mining & Quarrying	-5.3	-5.9	-5.1	1.5	0.2	-26.8	-59.6	-57.9	-56.5
Manufacture	1.1	-1.3	-0.5	-0.9	-3.0	-6.1	-8.1	-3.2	-2.1
Food, Beverages & Tobacco	2.0	-2.0	-0.6	-1.7	-1.6	-3.0	-6.5	-2.4	-3.3
Other Manufacturing	0.3	-0.4	-0.4	-0.1	-4.4	-10.2	-10.3	-4.1	-0.9
Electricity & Water Supply	-1.4	-1.3	-1.8	5.7	1.3	-1.4	1.8	5.6	2.5
Construction	8.7	2.1	-3.7	-9.8	-14.1	-5.3	-6.3	-2.8	-4.0
Wholesale & Retail Trade; Repair and Installation of Machinery	-0.1	0.3	0.4	-0.7	-0.7	-1.4	-1.4	-0.8	-1.2
Hotels and Restaurants	3.9	9.6	1.6	-1.5	-1.5	-0.8	3.7	1.9	1.2
Transport, Storage & Communication	0.2	-1.2	-2.2	-2.9	-2.8	-7.9	-5.6	-2.3	-1.4
Finance & Insurance Services	0.1	2.7	0.9	0.7	-1.0	1.0	1.0	1.9	-0.7
Real Estate, Renting & Business Activities	3.3	1.4	1.7	1.2	0.7	0.3	0.3	0.7	0.4
Producers of Government Services	-1.7	-0.1	-1.3	-0.6	1.8	-0.2	-0.3	-0.5	0.0
Other Services	1.2	2.1	-0.3	-0.2	0.3	-0.8	1.6	0.5	-0.1
Less Financial Intermediation Services Indirectly Measured (FISIM)	1.4	2.5	0.9	-2.8	-3.1	0.9	1.0	2.6	0.6

Source: Statistical Institute of Jamaica

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Assets	**278 045.0**	**267 838.0**	**273 994.4**	**278 865.6**	**280 853.0**	**310 361.6**	**310 179.3**	**355 729.1**	**342 264.3**
Foreign	177 518.2	164 990.4	143 530.2	146 851.9	147 590.6	178 316.0	157 054.2	215 986.1	216 097.1
Current Account & Foreign Currency Balances	36 274.4	22 474.3	30 350.9	25 289.6	19 281.7	21 147.7	16 734.5	25 615.4	31 550.9
Time Deposits & Securities	132 102.3	133 223.7	100 738.6	102 477.6	106 616.5	104 701.3	87 786.8	144 661.9	142 367.6
Holdings of Special Drawing Rights	13.4	4.2	7.7	7.4	6.1	29 387.2	29 383.5	29 079.4	29 198.1
Other	9 128.1	9 288.2	12 433.0	19 077.3	21 686.3	23 079.8	23 149.4	16 629.4	12 980.5
Local	100 526.8	102 847.6	130 464.2	132 013.7	133 262.4	132 045.6	153 125.1	139 743.0	126 167.2
Public Sector Securities	73 717.4	79 687.4	90 327.4	93 420.1	95 474.5	95 405.5	116 887.0	101 537.2	94 033.3
Discounts & Advances			16 777.2	19 654.1	18 666.6	16 553.1	15 737.8	14 520.1	9 446.9
Other Assets	26 809.4	23 160.2	23 359.6	18 939.5	19 121.3	20 087.0	20 500.3	23 685.7	22 687.0
Liabilities	**278 045.0**	**267 838.0**	**273 994.4**	**278 865.6**	**280 853.0**	**310 361.6**	**310 179.3**	**355 729.1**	**342 264.3**
Foreign	268.6	237.9	183.8	245.5	247.3	257.3	206.8	55 353.3	8 828.2
Local	277 776.4	267 600.1	273 810.6	278 620.1	280 605.6	310 104.3	309 972.5	300 375.7	339 067.2
Currency in Circulation	39 441.3	38 977.0	49 069.0	42 178.3	43 236.1	43 517.0	51 933.0	47,058.7	46 603.2
Deposits	224 425.0	214 859.7	198 224.7	206 875.9	209 072.4	207 911.8	198 333.9	199 649.0	248 953.6
Bankers	33 105.9	34 281.2	53 951.0	72 751.5	80 951.3	81 758.8	76 175.6	61 722.6	58 103.3
Government	6 589.0	8 286.9	4 503.6	5 208.3	1 515. 6	5 853.3	6 083.0	11 728.1	21 185.7
Open Market Operations	150 835.7	146 219.8	131 928.8	119 337.6	120 774.3	119 833.2	112 011.3	121 349.2	110 710.8
Other	33 894.4	26 071.8	7 841.3	9 578.5	5,831.2	466.5	4 064.0	4 849.1	58 953.8
Allocation of Special Drawing Rights	4 185.3	5 020.6	5 020.6	5 020.6	5 399.5	34 786.0	34 786.0	34 786.0	35 155.3
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	5 660.8	5 458.0	5 685.0	5 520.9	5 077.6	5 911.6	6 581.7	7 759.5	8 331.1
Other Liabilities	4 040.0	3 260.8	15 787.3	19 000.4	17 796.1	17 953.9	18 313.9	11 098.6	-5 631.1

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09 P	Mar10 P	Jun10 P
Assets	533 049.2	548 341.6	572 720.3	573 621.9	571 869.4	572 180.7	591 766.5	575 364.0
Cash	5 338.2	7 029.9	5 280.9	5 074.2	5 994.6	7 241.4	6 447.5	6 044.8
Balances with BOJ	86 077.6	81 762.9	92 513.2	92 378.6	88 995.0	84 640.0	90 568.3	88 926.4
Foreign Assets	100 289.2	104 184.8	108 218.2	112 238.0	104 174.3	114 421.4	129 647.7	121 103.3
Loans & Advances	233 120.9	246 167.5	259 146.7	259 340.6	257 227.4	256 389.7	256 993.7	249 855.6
Private Sector	202 280.2	215 392.1	224 852.5	224 361.5	222 893.5	222 491.5	219 459.4	218 683.5
Public Sector	30 840.7	30 775.4	34 294.2	34 979.1	34 333.9	33 898.2	37 534.3	31 172.1
Public Sector Securities	58 867.3	57 691.2	55 571.9	57 421.5	67 770.7	63 701.0	62 028.3	65 798.5
Cheques in the Process of Collection	4 936.6	2 425.2	5 863.5	3 466.2	5 347.4	2 664.1	4 671.2	4 836.3
Other Assets	44 419.4	49 080.1	46 125.9	43 702.8	42 360.0	43 123.1	41 409.8	38 799.1
Liabilities	533 049.2	548 341.6	572 720.3	573 621.9	571 869.4	572 180.7	591 766.5	575364.0
Deposits	327 776.0	333 960.0	353 880.5	352 625.7	351 676.2	357 096.6	378 413.5	373 667.1
Local Currency	205 462.6	205 487.7	210 182.7	206 226.6	209 891.2	208 434.7	219 801.2	224 310.8
Foreign Currency	122 313.4	128 472.3	143 697.8	146 399.1	141 785.0	148 661.9	158 612.3	149 356.3
Foreign Liabilities	79 180.9	88 460.5	91 717.1	91 027.4	82 475.3	80 593.4	77 845.8	65 985.8
Discounts & Advances from BOJ	53.3	197.1	93.6	99.8	411.6	450.4	506.6	494.9
Loans/Advances from Other Institutions	5 164.8	5 456.1	9 032.4	10 642.6	12 217.8	12 076.9	11 425.0	11 250.1
Cheques in the Process of Payment	4 583.3	7 900.8	4 388.8	4 200.7	5 431.2	3 892.0	5 292.7	4 198.5
Other Liabilities	116 290.9	112 367.1	113 607.9	115 025.7	119 657.3	118 071.4	118 282.9	119 767.6

P - preliminary ; r - revised

F. INTERNATIONAL INDICATORS

1

USD LONDON INTERBANK OFFERED RATE – LIBOR
(End- of-Period)

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237
2005/2006				
June	3.2498	3.4263	3.6131	3.8135
September	3.7779	3.8981	4.0363	4.1951
December	4.3622	4.4910	4.6662	4.8357
March	4.7604	4.9203	5.0527	5.1867
2006/2007				
June	5.2301	5.3673	5.4759	5.5772
September	5.3300	5.3898	5.4249	5.4101
December	5.3219	5.3600	5.3700	5.3294
March	5.3199	5.3462	5.3132	5.1969
2007/2008				
June	5.3200	5.3600	5.3863	5.4256
September	5.5572	5.5424	5.3916	5.0865
December	4.6000	4.7025	4.5963	4.2238
March	2.7031	2.6881	2.6143	2.4862
2008/2009				
June	2.4625	2.7831	3.1088	2.4862
September	3.9263	4.0525	3.9813	3.9625
December	0.4360	1.4250	1.7500	2.0040
March	0.5320	1.2670	1.8270	2.1170
2009/2010				
June	0.3090	0.5950	1.1110	1.6060
September	0.2456	0.2869	0.6288	1.2638
December	0.2309	0.2506	0.4297	0.9844
March	0.2486	0.2915	0.4444	0.9200
2010/2011				
June	0.3484	0.5339	0.7525	1.1731

2

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

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2005/2006				
June	4 27/32 – 4 11/16	4 25/32 – 4 5/8	4 23/32 – 4 9/16	4 19/32 – 4 13/32
September	4 19/32 – 4 15/32	4 19/32 – 4 15/32	4 9/16 – 4 7/16	4 7/16 – 4 13/32
December	4 21/32 – 4 17/32	4 5/8 – 4 17/32	4 19/32 – 4 15/32	4 9/16 – 4 15/32
March	4 19/32 – 4 ½	4 5/8 – 4 17/32	4 11/16 – 4 9/16	4 25/32 – 4 11/16
2006/2007				
June	4 11/16 – 4 19/32	4 ¾ – 4 21/32	4 13/16 – 4 23/32	5 – 4 29/32
September	4 15/16 – 4 7/8	5 1/16 – 5	5 3/16 – 5 3/32	5 9/32 – 5 7/32
December	5 1/32 – 5 ½	5 5/16 – 5 7/32	5 13/32 – 5 5/16	5 17/32 – 5 7/16
March	5 15/32 – 5 13/32	5 5/8 – 5 17/32	5 ¾ – 5 21/32	5 7/8 – 5 25/32
2007/2008				
June	5 92/100 – 5 95/100	6 1/100 – 5 93/100	6 14/100 – 6 6/100	6 33/100 – 6 23/100
September	6 8/100 – 6 18/100	6 25/100 – 6 8/100	6 25/100 – 6 15/100	6 18/100 – 6 8/100
December	6 4/100 – 5 24/25	6 2/100 – 5 47/50	5 97/100 – 5 91/100	5 ¾ – 5 67/100
March	5 70/100 – 5 79/100	5 94/100 – 6	5 90/100 – 5 98/100	5 74/100 – 5 84/100
2008/2009				
June	5 40/100 – 5 51/100	5 86/100 – 5 95/100	6 5/100 – 6 17/100	6 36/100 – 6 45/100
September	5 90/100 – 6	6 18/100 – 6 28/100	6 25/100 – 6 35/100	6 35/100 – 6 45/100
December	2 5/100 – 2 5/100	2 68/100 – 2 78/100	2 85/100 – 2 85/100	3 00/100 – 3 10/100
March	95/100 – 1 05/100	1 60/100 – 1 70/100	1 85/100 – 1 95/100	2 06/100 – 2 16/100
2009/2010				
June	34/100 – 64/100	1 14/100 – 1 14/100	1 38/100 – 1 48/100	1 69/100 – 1 79/100
September	35/100 – 50/100	35/100 – 55/100	50/100 – 77/100	85/100 – 1 25/100
December	40/100 – 50/100	47/100 – 57/100	76/100 – 86/100	1 20/100 – 1 30/100
March	37/100 – 54/100	45/100 – 64/100	70/100 – 87/100	1 10/100 – 1 31/100
2010/2011				
June	45/100 – 55/100	60/100 – 70/100	92/100 – 1 2/100	1 36/100 – 1 46/100

3

PRIME LENDING RATES
(End- of-Period)

	EURO-ZONE	UNITED STATES			UNITED KINGDOM
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Repo rate
2004/2005					
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75
March	2.00	2.75	3.58	5.50	4.75
2005/2006					
June	2.00	3.25	4.01	6.00	4.75
September	2.00	3.75	4.59	6.75	4.50
December	2.25	4.25	5.15	7.25	4.50
March	2.50	4.75	5.53	7.75	4.50
2006/2007					
June	2.75	5.25	6.02	8.25	4.50
September	3.00	5.25	6.25	8.25	4.75
December	3.50	5.25	6.25	8.25	5.00
March	3.75	5.25	6.25	8.25	5.25
2007/2008					
June	4.00	5.25	6.25	8.25	5.50
September	4.00	4.75	5.25	8.25	5.75
December	4.00	4.25	4.75	7.25	5.50
March	4.00	2.25	2.50	5.25	5.25
2008/2009					
June	4.00	2.00	2.25	5.00	5.00
September	4.25	2.00	2.25	5.00	5.00
December	2.50	0 – 0.25	0.50	3.61	2.00
March	1.50	0.25	0.50	3.25	0.50
2009/2010					
June	1.00	0.25	0.50	3.25	0.50
September	1.00	0.25	0.50	3.25	0.50
December	1.00	0.25	0.50	3.25	0.50
March	1.00	0.25	0.75	3.25	0.50
2010/2011					
June	1.00	0.25	0.75	3.25	0.50

4A

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

	Sep-08	Dec-08	Mar-09	Jun-09	Sep -09	Dec -09	Mar -10	Jun -10
US$ vs. Sterling	0.5618	0.6843	0.6993	0.6079	0.6249	0.6186	0.6585	0.6691
US$ vs. Canadian $	1.0599	1.2246	1.2602	1.1625	1.0722	1.0466	1.0156	1.0606
US$ vs. Yen	105.99	90.778	99.150	96.393	89.499	93.114	93.431	88.531
US$ vs. Euro	0.7103	0.7184	0.7542	0.7133	0.6835	0.6977	0.7393	0.8137

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(Jun. 2010)

	GBP	CAN$	US$	Yen	Euro
GBP	1.0000	1.5852	1.4946	132.320	1.2161
CAN$	0.6308	1.0000	0.9429	83.4720	0.7672
US$	0.6691	1.0606	1.0000	88.5310	0.8137
Yen	0.0092	0.0120	0.0113	1.00000	0.0092
Euro	0.8223	1.3035	1.2290	108.810	1.0000

4C

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

(	Mar-09	June-09	Sep-09	Dec -09	Mar -10	Jun -10
Sterling vs. US$	1.4168	1.6449	1.6003	1.6165	1.5185	1.4946
Sterling vs. Canadian $	1.791	1.9122	1.7158	1.6918	1.5422	1.5852
Sterling vs. Yen	138.65	158.56	143.22	150.52	141.88	132.32
Sterling vs. Euro 1/	1.0862	1.1733	1.0938	1.1279	1.1277	1.2162

5A

WORLD COMMODITY PRICES KEY CRUDE OIL PRICES (US$/barrel – f.o.b.) (Period Averages)							
	Dec-08	**Mar-09**	**June-09**	**Sep -09**	**Dec -09**	**Mar -10**	**Jun -10**
North Sea Brent	41.58	46.84	68.62	67.69	74.67	79.27	74.84
West Texas Intermediate	41.44	48.06	69.70	69.47	74.56	81.29	75.40

5B

WORLD COMMODITY PRICES FOOD (Period Averages)							
	Dec-08	**Mar-09**	**June-09**	**Sep -09**	**Dec -09**	**Mar -10**	**Jun -10**
Wheat **(**US$/mt**,** Hard Red Winter**)**	220.14	230.95	256.64	191.10	206.25	191.08	157.67
Coffee (US¢/kg Arabica brand)	262.13	283.34	330..23	327.45	348.68	362.66	420.86

6

MAJOR STOCK MARKET INDICES (End- of-Period)									
	Jun-08	**Sep-08**	**Dec-08**	**Mar-09**	**Jun-09**	**Sep-09**	**Dec-09**	**Mar-10**	**Jun-10**
TOKYO									
Nikkei Index	13481.38	11259.86	8859.56	8109.53	9958.44	10133.23	10546.44	11089.94	9382.64
NEW YORK									
Dow Jones Industrials	11350.01	10850.66	8776.39	7608.92	8447.00	9712.28	10428.05	10856.63	9774.02
S & P Composite	1280.00	1166.36	903.25	797.87	919.32	1057.08	1115.10	1169.43	1030.71
LONDON									
Financial Times SE 100	5625.90	4902.45	4434.17	3926.14	4249.21	5133.90	5412.88	5679.64	4916.87
FRANKFURT									
Dax Index	5831.02	6145.00	4810.20	4084.76	4808.64	5675.16	5957.43	6153.55	5965.52

Glossary

Amortization: The repayment of a loan in instalments over an agreed period of time.

Base Money: The sum of notes and coins held by the public and the cash reserves of commercial banks (including both their holding of cash and their deposits at the central bank). The monetary base is the operating target used in the BOJ monetary policy framework and can be controlled through open market operations. Changes in the monetary base emanate from sources within the net domestic assets (NDA) as well as the net international reserves (NIR).

Bond Market: The domestic bond market primarily captures debt instruments offered by the Central Government to fund its budgetary needs.

Cash Reserve Requirement: The requirement by law that a percentage of deposit liabilities of deposit-taking institutions must be held as interest free deposits at the Central Bank.

Core Inflation: Also called ***Underlying Inflation***. It is that part of overall inflation that can be attributed to changes in base money. Central Banks typically try to control core inflation because there are some parts of inflation that are outside of their control. One example of this is the effect of changes in oil prices.

Credit: Loans extended by banks, building societies and other financial institutions.

Exchange rate (nominal): The number of units of one currency offered in exchange for another. For example a Jamaica dollar/United States dollar exchange rate of 'forty two dollars to one' indicates that forty-two Jamaican dollars are needed to obtain one United States dollar.

Exchange rate pass-through: The effect of exchange rate changes on one or more of the following: import and export prices, consumer prices, investments and trade volumes.

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

Foreign exchange cash demand/supply: The amount of foreign exchange purchased by market participants from the authorized dealers and cambios, while ***cash supply/inflows*** is the amount sold to the Bank of Jamaica, authorized dealers and cambios by market participants, private institutions and multilateral agencies.

Financial Programme: An integrated system of macroeconomic accounts and behavioural relationships defining the set of monetary, fiscal and exchange rate policy measures designed to achieve specified macroeconomic targets.

Financial Asset: An instrument issued by an institution (e.g. BOJ) that provides economic benefits, by (1) generating interest income or net profits and (2) acting as a store of value. These benefits are created through a formal/informal borrowing/lending relationship. Most common types of financial assets are money and credit.

Fiscal deficit: The excess of the Government's expenditure over its revenue for a given period of time.

Fiscal Year: The twelve months beginning in April. Thus fiscal year 2000/2001 refers to the period April 2000 to March 2001.

Government Securities: Debt instruments issued by the Ministry of Finance either to bridge timing gaps between revenue and expenditure or to cover any excess of expenditure over revenue. These securities include short-term instruments such as Treasury Bills and more long term ones like Local Registered Stock, or Debentures.

Gross Domestic Product (GDP)*:* This is the total value of all goods and services produced within an economy over a particular time period –either a year or three month.

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

Inflation: refers to the change in the general price level. In Jamaica, this is derived as the change in the Consumer Price Index (CPI) calculated and published by the Statistical Institute of Jamaica.

Intermediate Target: An intermediate target of policy. e.g. the money supply or the exchange rate, has three main characteristics.
It is not directly determined by the Central Bank,
It responds, however, to a stimulus that the Central Bank can vary, and
Its behaviour should to be closely related to the ultimate target-inflation.

Jamaica Central Securities Depository (JCSD): The Principal function of the JCSD is to provide for relatively risk-free settlement of share transactions. It accomplishes this by employing an electronic, book-entry system for registering changes of ownership of securities which eliminates the need for physical certificates. The JCSD also provides vaulting facilities for the safekeeping of certificates.

Liquid Asset*:* An asset is considered liquid if it can be easily and with little or no loss converted to cash. The liquid assets of commercial banks in Jamaica include notes and coins, short-term deposits at the Bank of Jamaica, GOJ Treasury Bills, Local Registered Stock maturing within 270 days and any GOJ security designated by the Ministry of Finance.

Money: Anything that is generally accepted in exchange for goods and services and for the payment of debt. (e.g. example, notes and coins.). Hence money is said to be a medium of exchange. Money also serves as a means of storing wealth as well as a standard of and unit of accounting for financial values and flows.

Money Supply**:** This is the stock of instruments or assets formally designated as money in a particular economy. There are alternative measures of money supply both within and between countries. In Jamaica, the measurements of money that are calculated and published are:

M1: Notes and coins in circulation + Demand Deposits
M2: M1+ Time and savings deposits
M3: M2 + Other Deposits.
A 'J' indicates that the components are Jamaican dollar liabilities only and an '*' indicates that the components also include foreign currency liabilities of the banking system.

Monetary Base*: See *Base Money

Monetary policy framework: This defines the transmission process through which policy actions taken by the Central Bank make an impact on the final target - inflation. The components of a monetary policy framework are policy instruments, operating targets, intermediate targets, and the ultimate goal/objective.

Monetary Policy Instruments: These are instruments used by the Central Bank to influence the money supply and credit. They include open market operations and the reserve requirement ratio.

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

Open Market Operations (OMO): Money market trading between the Bank of Jamaica and authorized dealers with the intention of influencing money and credit in the financial system. OMO involves outright sale or purchase of GOJ securities from the stock of securities held by BOJ, and/or repurchase and reverse repurchase transactions.

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

Operating Target: An operating target of policy e.g. the monetary base and interest rates, is influenced directly by the Central Bank and is adjusted by the Bank in order to bring about the desired impact on its policy target.

***Primary Dealer (PD)*:** The set of intermediaries through which BOJ conducts open market operations. In developed country markets, PD's underwrite government issues as well as participate in block transactions with the central bank.

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

Real Appreciation: An increase in the volume of foreign goods that can be bought with a unit of domestic currency; alternatively it is a decrease in the volume of domestic goods that can be purchased with a unit of foreign currency. Thus, a real appreciation makes exports less attractive and imports relatively cheaper. This may ensue from a nominal appreciation, which is the rise in the unit price of the currency, or a greater increase in domestic prices relative to foreign prices, or both.

***Real Exchange Rate*:** The price of one country's currency in terms of another, adjusted for the inflation differential between the countries.

Real interest rate: This represents the rate of return on assets after accounting for the effects of inflation on the purchasing power of the return. It is calculated by adjusting the nominal interest rate by the inflation rate.

***Repurchase Agreement (repo)*:** The purchase of a security from a primary dealer who agrees to repurchase the same at a specified rate and an agreed future date.

Reserve Requirement: refers to the portion of deposit liabilities that financial institutions may not lend and have to retain either as liquid assets or on deposit at the Bank of Jamaica.

Reverse Repurchase Agreements: An agreement whereby the Central Bank sells a security that it owns and agrees to buy back same at a specified rate at an agreed future date.

***Securities*:** Legal documents giving title to property, or claim on income e.g. bonds and stocks.

Signal Rate: Interest rate on Bank of Jamaica's thirty-day reverse repurchase agreements. This rate provides a benchmark for the pricing of all open market instruments negotiated between the BOJ and Primary Dealers.

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

***Statutory Cash Reserves*:** That portion of deposit liabilities of deposit-taking institution, which by a statutorily based stipulation, must be held as interest free deposits at the Central Bank.

Sterilization*:* The use of open market operations to prevent intervention in the foreign exchange market from changing the monetary base. With sterilization, any purchase of foreign exchange is accompanied by an equal-value sale of domestic bonds and vice versa.

***Time deposit*:** A bank account based on a contractual arrangement between the deposit taking institution and the depositor where both parties agree to a pre-determined interest rate and maturity date, on which deposits earn interest and premature withdrawals from which require advance notice.

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

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

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

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

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Oct - Dec 2000	1	Sovereign Credit Ratings & Outlook
	2	E-gate & the Foreign Exchange Market
	3	The International Oil Market: Recent Developments and Outlook
	4	Jamaica's IMF Staff Monitored Programme (SMP)
Jan - Mar 2001	5	Core Inflation in Jamaica - Concept & Measurement
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April - June 2001 Volume 2 No. 1	7	Jamaica's Banking Sector Recovery - An Overview
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