QUARTERLY MONETARY POLICY REPORT

January – March 2006

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Bank of Jamaica
Quarterly Monetary
Policy Report

JANUARY – MARCH 2006

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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 influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes is a summary of the ***Detailed Assessment of Observance of Standards and Codes for Monetary Policy Transparency***, which formed part of the joint World Bank/IMF Financial Sector Assessment Programme (FSAP) for Jamaica.

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

There was marked improvement in the macroeconomic environment in the March 2006 quarter, characterised by a sharper than anticipated deceleration in inflation, strong GDP growth, a relatively stable foreign exchange market and adequate net international reserves. However, against the background of rising international interest rates and oil prices, the Central Bank remained cautious in its conduct of monetary policy throughout the quarter. The Bank was of the view that a longer period of declining inflation was necessary to ensure that the downward trend in inflation expectations was more firmly ingrained. Consequently, interest rates on open market instruments were maintained at levels established since end May 2005.

For the March quarter, headline inflation decelerated to 0.14 per cent, following rates of 0.9 per cent for the previous quarter and 1.4 per cent for the corresponding 2005 quarter. This outturn was the lowest for any quarter since the March quarter of FY2002/03, with the primary moderating influence being a sharp fall in the prices of agricultural products. Inflation for the fiscal year was 11.4 per cent and although it exceeded the original target of 9-10 per cent, represented a significant turnaround from the increasing trend in annual inflation following hurricanes in the September 2005 quarter.

Core inflation fell to 0.8 per cent for the March quarter, comparing favourably to 1.0 per cent for the December 2005 quarter and 1.1 per cent for the corresponding quarter in 2004. It was also the lowest outturn for a quarter since the second quarter of FY 2002/03. For FY2005/06, core inflation was 4.95 per cent, compared to 5.17 per cent for the previous fiscal year. The reduction in core inflation for the FY2005/06 was consistent with the maintenance of tight management of base money, which grew by 4.7 per cent relative to the 13.5 per cent targeted for the year. For the March 2006 quarter, base money contracted by 11.8 per cent, which was much sharper than the 4.0 per cent reduction targeted in the monetary programme.

The stability in the foreign exchange market was underpinned by improvement in receipts from tourism and remittances, as well as strong private capital inflows. Continued moderation in inflation facilitated real positive returns on Jamaica Dollar instruments, reducing the tendency among investors to convert to foreign currency denominated assets. The improved confidence in the value of the Jamaica Dollar was also reflected in a much slower build up in foreign currency deposits vis-à-vis local currency balances during the quarter. Against this background, the weighted average selling rate of the Jamaica Dollar depreciated by 1.4 per cent in the March 2006 quarter, relative to 2.6 per cent in the December quarter. For the fiscal year, the weighted average selling rate depreciated by 6.0 per cent relative to 0.86 per cent depreciation in FY2004/05.

Concurrent with developments in money and foreign exchange markets, the Jamaican stock market continued to under perform in the review quarter. The main JSE Index declined by 16.0 per cent following a marginal increase of 1.4 per cent in the December quarter, suggesting a return to the trend decline of previous months. Although inflation was of less concern, market sentiment was affected by the low profitability of a large number of listed companies, as well as the poor performance of an initial public offer.

The Bank's preliminary assessment of real sector activity indicates continued growth in the March 2006 quarter, at a rate similar to the previous two quarters. The main areas of expansion were ***Agriculture*** and ***Tourism***, while indications are that ***Mining, Manufacturing*** and ***Construction*** declined. Based on the estimated expansion in the March 2006 quarter and growth of 1.9 per cent for the first nine months of FY2005/06, real GDP growth was estimated between 2.0 per cent and 2.5 per cent for the full fiscal year. This compares favourably to 0.4 per cent growth in FY2004/05 and reflects strong recovery in agriculture, significant expansion in construction, as well as buoyant tourism activities in the latter half of the year. Economic growth in the quarter was supported by a continued increase in loans from commercial banks. In addition, the Jamaica's main export sectors benefited from the favourable international environment.

The economic outlook for the June 2006 quarter is very positive, notwithstanding seasonally higher inflation relative to the March quarter and the likely impact of increases in crude oil prices. Both the goods and services sectors of the economy should also continue to expand in the quarter. For FY2006/07, economic growth is expected to accelerate driven by strong world growth, which should engender increased demand for Jamaica's exports. Inflation should continue to moderate and return to single digit, with the main risk being severe weather-related and oil price shocks. In this context, the Central Bank will continue to seek opportunities for lowering interest rates, consistent with stability in the money and foreign exchange markets.

Included in this issue of the QMPR, is a summary of the ***Detailed Assessment of Observance of Standards and Codes for Monetary Policy Transparency***, which formed part of the joint World Bank/IMF Financial Sector Assessment Programme (FSAP) for Jamaica. The report concluded that there was a high degree of transparency in the conduct of monetary policy with the Bank observant in 42 of the 46 areas assessed, while being partly observant in 3 of the remaining 4 areas. The areas identified for improvement relate to the reform of the legislation governing the operation of the Central Bank, a process that has been receiving attention at the Parliamentary level.

1. Monetary Policy and Financial Markets

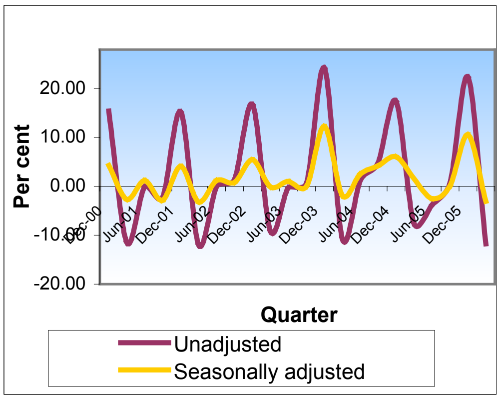
Money & Credit

Monetary Policy and Base Money Management

Monetary policy in the March 2006 quarter was conducted within the context of a relatively stable and improved macroeconomic environment. The Bank, however, maintained a conservative monetary policy stance in light of uncertainties regarding inflation expectations and rising international interest rates which would further narrow the interest differential. Interest rates were maintained at levels that existed since May 2005 while the Bank relied heavily on the conduct of open market operations to absorb liquidity. In this context, the monetary base contracted by 11.8 per cent for the quarter relative to the programmed target of 4.0 per cent (see **Figure 1.1**).

The monetary base expands at a slower rate than programmed

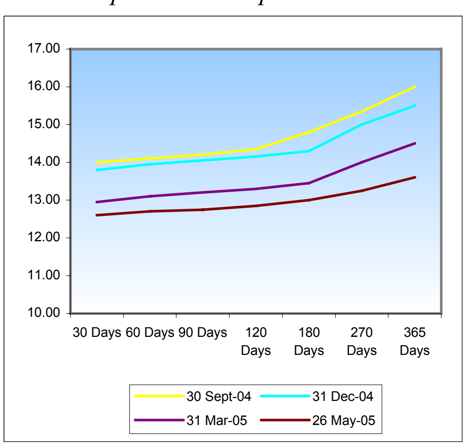
Figure 1.1
Base Money



(Quarterly Change)

During the March 2006 quarter, monetary policy centered on maintaining the stability observed in the economy since the latter half of the December quarter. This stability occurred in the context of an improvement in the macroeconomy characterized by falling inflation, rebound in the real sector, buoyant foreign exchange flows and relatively strong NIR. However, some investors had not fully normalized their inflation expectations. This was manifested in residual demand for hedged instruments denominated in Jamaica Dollars, although the demand was not as strong as in the December and September quarters. In this context, the Bank adopted a conservative monetary policy stance by keeping interest rates on the Bank's tenors of open market instruments constant (see **Figure 1.2**).

Figure 1.2
BOJ Open Market Operations Yield Curve



Given the general improvement in the macroeconomy, the Bank relied more heavily on the conduct of open market operations (OMO) in the March quarter in contrast to the previous two quarters when there was more reliance on the sale of foreign exchange (see **Figure 1.3**) and Government of Jamaica (GOJ) securities from its portfolio. Against this background, the monetary base contracted by $5 890.9 million or 11.8 per cent in the March 2006 quarter relative to a contraction of 7.6 per cent in the March 2005 quarter. The decline in the monetary base was mainly reflected in net currency redemption of $5 930.1 million or 16.6 per cent in keeping with the seasonal pattern for a March quarter.

Table 1.1

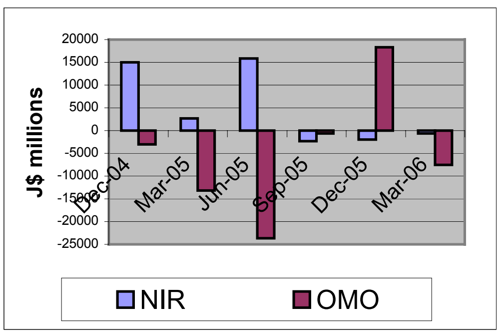
Net International Reserves Jan-Mar 2006 Flows (US$MN)				
	Jan	Feb	Mar	Total
NIR	6.1	-69.2	53.9	-9.3

The Bank relied heavily on the conduct of OMO

Figure 1.3

Effects of the NIR & OMO on liquidity*

*Absorption-negative, Injection-positive



The decline in the monetary base was mainly influenced by a decline in the Net Domestic Assets (NDA) of $5 204.4 million. Within the NDA, OMO absorbed $7 551.1 million (see **Table 3 in Appendix C**).

This was partially offset by the injection of $2 394.7 million in net claims on the public sector. In addition to the impact from the NDA, there was a marginal decline of J$690.0 million (US$9.3 million) in the NIR during the March quarter due to GOJ debt payments (see **Table 1.1** and **Foreign Exchange Market**).

Against the background of adverse developments in the September and December quarters, the Bank adopted a tighter monetary policy stance than originally programmed. In this context, the expansion in the monetary base for FY2005/06 was constrained to 4.7 per cent relative to the 13.0 per cent outlined in the monetary programme. While the growth in the NIR was largely in line with the programme target, the NDA was less expansionary due mainly to the absorption by the Bank's outright sale of securities, which had not been programmed. Additionally, the Bank maintained the Special Deposit Requirement at 1.0 per cent.

Figure 1.4

Money Supply
(Quarterly Growth rates)
March 2002 to 2006

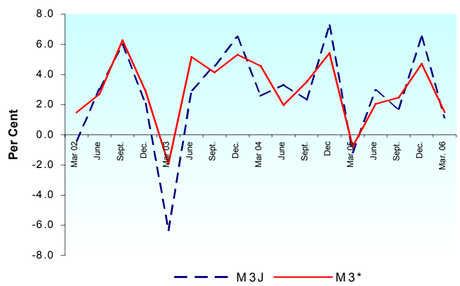


Table 1.2

Money Supply /1 (12-month growth rates)		
MJ	**Mar-05**	**Mar-06**
M1J	17.1	11.4
M2J	11.7	10.1
M3J	12.1	12.8
M*		
M1*	9.1	12.0
M2*	9.9	9.0
M3*	10.4	11.1

/1 M* Includes Foreign currency deposits

Table 1.3

INTEREST RATES IN THE DOMESTIC AND INTERNATIONAL MARKET	Feb-05	Dec-05	Feb-06
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**6.02**	**5.36**	**5.36**
Demand	3.48	3.23	2.92
Savings	5.64	4.87	4.88
Time	7.62	7.00	7.11
Foreign Currency	**3.27**	**3.29**	**3.24**
Demand	3.13	3.07	2.87
Savings	2.25	2.30	2.27
Time	5.13	4.96	4.95
6-MONTH TREASURY BILL RATE	**13.95**	**13.55**	**13.24**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**14.00**	**13.00**	**13.00**
PRIVATE MONEY MARKET RATE	**13.55**	**13.40**	**12.80**
6-MONTH U.S. TREASURY RATE	**2.77**	**4.18**	**4.52**

Money Supply

For the March 2006 quarter, broad Jamaica Dollar money supply (M3J) increased by 1.1 per cent, relative to the 2.6 per cent expansion anticipated in the monetary programme. The slower than anticipated growth in M3J was consistent with the conservative monetary policy stance maintained by the BOJ. The main source of growth in M3J was an increase in private sector credit. A decline in commercial banks' net foreign assets was the main countervailing influence on the growth in money supply for the review quarter. For fiscal year 2005/06, M3J recorded a faster rate of growth relative to FY 2004/05, but was lower than the increase outlined in the monetary programme.

The measure of money supply that includes foreign currency deposits, M3, increased by 1.5 per cent and reflected a 2.5 per cent growth in foreign currency deposits. There was a decline in the ratio of foreign currency deposits to total private sector deposits. For FY 2005/06, M3* grew at a faster rate relative to FY 2004/05, reflecting a larger increase in foreign currency deposits.*

For the March 2006 quarter, broad Jamaica Dollar money supply (M3J) increased by 1.1 per cent. This increase was relative to the 2.6 per cent growth anticipated in the monetary programme and was in contrast to the 1.2 per cent decline recorded in the March 2005 quarter (see **Figure 1.4**). The deviation from programme was in a context of the conservative monetary policy stance maintained by the BOJ.

Local currency deposits grew by $5 702.65 million or 3.3 per cent, reflected primarily in "other deposits". The build up in "other deposits" was driven by an increase in commercial banks' unappropriated profits. Time deposits grew by 9.7 per cent, the highest recorded since the December 2004 quarter. The increase in time deposits for the review quarter was consistent with the stronger investor confidence in Jamaica Dollar denominated assets. This expansion was concentrated in January, as there was a deceleration towards the end of the quarter in a context where these funds are normally used to honour tax obligations before the end March deadline. Savings deposits increased by 0.4 per cent, respectively, while demand deposits declined by 1.6 per cent.

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

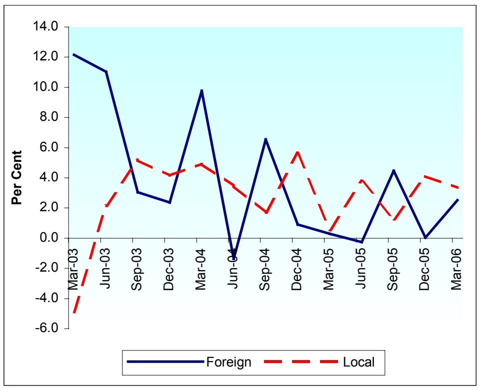


Figure 1.6
Foreign Currency Deposits to Total Deposits
March 2003 to 2006

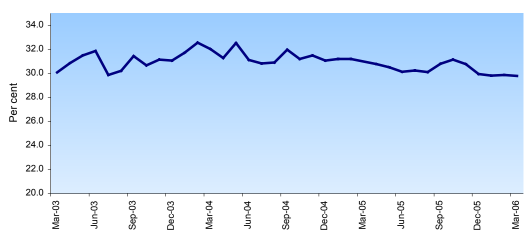
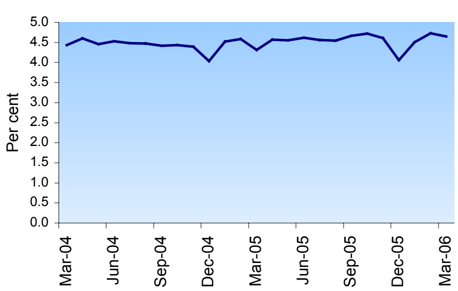


Figure 1.7
Money multiplier
(Quarterly Trend)



March 2004 to 2006

Currency in circulation declined by $3 435.3 million or 11.6 per cent. This decline reflected the usual net currency redemptions following the Christmas season.

An expansion in banking system credit to the private sector of $3 169.6 million was the main source of growth in M3J during the review quarter (see **Private Sector Credit**). A decline in commercial banks' net foreign assets was the main countervailing influence. This decline mainly reflected an increase in borrowings from overseas banks by one commercial bank, which coincided with a build up of domestic securities in this institution.

During the review quarter, M3* grew by 1.5 per cent, relative to the 4.7 per cent recorded in the previous quarter. Foreign currency deposits grew by 2.5 per cent, slower than the growth in local currency deposits (see **Figure 1.5**). As a result, the ratio of foreign currency deposits to total private sector deposits declined to 29.8 per cent at end March 2006 from 30.0 per cent at end December 2005. The ratio at end March 2005 was 31.0 per cent (see **Figure 1.6**).

The money multiplier at end March 2006 was 4.65, relative to 4.06 at end December 2005 and 4.32 at end March 2005 (see **Figure 1.7**) The increase during the review quarter was reflected in declines in the currency to deposits and reserves to deposits ratios (see **Table 1.5**). The reduction in the currency to deposits ratio was in the context of the seasonal net currency redemptions, as well as the growth in local currency deposits. The decline in the reserves to deposits ratio reflected a moderation in the public's demand for currency during the review quarter.

For FY 2005/06, M3J increased by 12.8 per cent, within the 14.8 per cent increase anticipated in the monetary programme. The growth for FY 2005/06 was marginally above that recorded in FY 2004/05. The expansion in M3J for the year reflected increases of 13.0 per cent and 11.3 per cent in local currency deposits and currency in circulation, respectively. The growth in local currency deposits was largely reflected in time deposits, which grew by 12.9 per cent in FY 2005/06, compared to 5.6 per cent in FY 2004/05. This acceleration in the growth in time deposits was consistent with an improvement in confidence in Jamaica Dollar assets.

Table 1.5

COMPONENTS OF THE MONEY MULTIPLIER	Mar-05	Dec-05	Mar-06
	%	%	%
Currency to Deposits	15.06	17.34	14.83
Reserves to Deposits	11.60	11.58	9.86
Excess Reserves to Deposits	*3.47*	*3.90*	*2.11*
Cash Reserves to Deposits	*8.13*	*7.68*	*7.75*
Money Multiplier	**4.32**	**4.06**	**4.65**

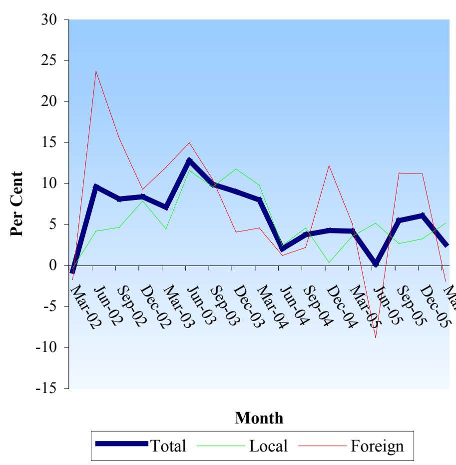
The slowdown in the nominal growth in currency in circulation for FY 2005/06 relative to FY 2004/05 was largely attributed to continued increase in alternative means of payment and a moderation in inflation. This translated into a decline in real terms of 3.3 per cent for FY 2005/06, relative to a real growth of 1.3 per cent for FY 2004/05.

During FY 2005/06, foreign currency deposits grew at a marginally higher rate relative to FY 2004/05. This translated into a faster rate of increase in M3*.

Table 1.6

Commercial Bank Distribution of Total Credit to the Private Sector (Quarterly Flows)			
	Mar-05	Prov. Dec-05	Prov. Mar-06
Total Private Sector Credit	**3 672.7**	**5 893.7**	**2 713.9**
Loans and Advances	4 931.6	5 695.8	2 698.0
Other Investments and Private Debentures	-1,258.9	197.9	15.9

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



Private Sector Credit

*Private sector credit continued to expand during the March 2006 quarter, albeit at a lower rate than the outturn for the previous quarter and the target outlined in the monetary programme. **Personal Loans** and **Distribution** accounted for the largest share of the increase. Consistent with significant net repayments by the tourism sector, foreign currency loans declined during the review quarter. The overall weighted average loan rate increased slightly during the review period. For FY 2005/06, private sector credit recorded overall growth of 15.0 per cent, in line with the 15.3 per cent recorded in FY 2004/05.*

Commercial bank credit to the private sector continued to grow during the March 2006 quarter within the context of an improved macroeconomic environment. The stock of private sector credit at end March 2006 was $105 955.4 million, an expansion of 2.6 per cent for the review quarter. However, the outturn for the quarter was less than the 4.6 per cent increase targeted in the monetary programme. The increase for the March 2006 quarter also represented a slowdown in credit growth relative to 6.1 per cent in the previous quarter and 4.2 per cent during the March 2005 quarter (see **Figure 1.8**). The outturn for the review quarter brought the increase in private sector credit to 15.0 per cent for FY2005/06, relative to the target of 13.8 per cent outlined in the monetary programme. The growth in credit for FY 2005/06 largely reflected expansions within the hotel industry and personal loans. This outturn was marginally less than the 15.3 per cent expansion during FY 2004/05.

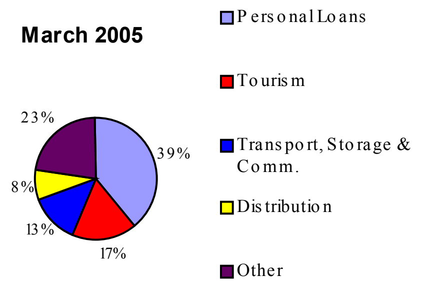
Growth in private sector credit for the review quarter solely reflected an increase in loans denominated in local currency, which expanded by 5.2 per cent. This compared with relatively slower rates of growth during the December 2005 quarter and the comparable quarter of 2005 (see **Figure 1.8**). During the March 2005 quarter, foreign currency loans contracted by 1.9 per cent, following robust growth of 11.2 per cent during the previous quarter and 5.1 per cent in the March 2005 quarter.

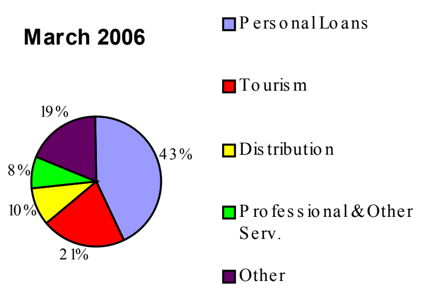
Within private sector credit, the expansion of $2 698.0 million in loans and advances was largely concentrated in **Personal Loans**. Growth in

Table 1.7

Commercial Bank Distribution of Loans & Advances to the Private Sector (FLOWS J$M)			
	Mar-05	**Dec-05**	**Mar-06**
Agriculture & Fishing	500.6	148.5	34.9
Mining & Quarrying	-18.2	-33.0	108.1
Manufacturing	588.4	-171.4	200.2
Construction & Land Dev.	204.7	236.3	325.7
Transport, Storage & Comm.	2446.6	238.0	-17.8
Tourism	-459.6	2310.9	-2 030.1
Distribution	276.9	508.8	1 124.1
Professional & Other Services	765.5	281.9	489.6
Personal Loans	665.3	2270.5	2 454.6
Electricity, Gas & Water	-48.8	-91.3	1.4
Entertainment	10.0	5.1	8.7
Overseas Residents	0.4	-8.7	-1.4
TOTAL	**4931.6**	**5695.8**	**2698.0**

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





these loans accelerated to 6.0 per cent during the review quarter relative to an expansion of 5.8 per cent in the previous quarter and 2.0 per cent during the March 2005 quarter. For FY 2005/06, these loans accounted for the largest proportion of the increase in credit, expanding by 27.9 per cent and also continued to account for the largest proportion of outstanding loan balances (see **Figure 1.9**).

Distribution and **Professional & Other Services** also recorded significant growth in credit during the review quarter, expanding by 13.0 per cent and 6.4 per cent, respectively. However, significant net repayments within Tourism contributed to the slowdown in credit for the review quarter.

The stock of foreign currency loans decreased by US$20.5 million or 3.4 per cent relative to significant growth of 6.7 per cent in the previous quarter and 4.8 per cent in the corresponding quarter of 2005 (see **Table 1.8**). The fall-off in foreign currency loans predominantly reflected significant net repayments within **Tourism**, which largely represented repayments by one major hotel. Despite net repayments within this sector during the review quarter, it continued to account for the largest proportion of outstanding foreign currency loans (see **Figure 1.10**).

Consequent on the reduction in foreign currency loans during the review quarter, the proportion of foreign currency loans to total loans at end March 2006 was 34.4 per cent relative to 36.0 per cent at end December 2005 and 35.7 per cent at end March 2005.

Interest Rates

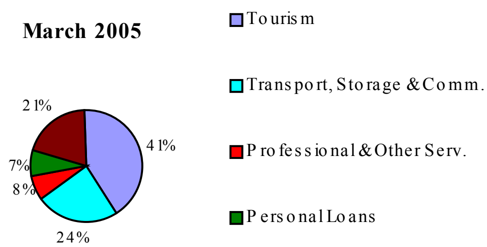
The overall weighted average loan rate applicable to private and public sector loans was 17.94 per cent at end February 2006, an increase of 62 basis points relative to end December 2005 and 38 basis points when compared to the rate observed at end February 2005 (see **Table 1.9**). The increase in the weighted average rate for the two-month period was reflected in increases in the rates on both public sector loans and private sector loans. Nonetheless, there has been a general downward trend in the overall weighted average rate over the last four years (see **Figure 1.11**).

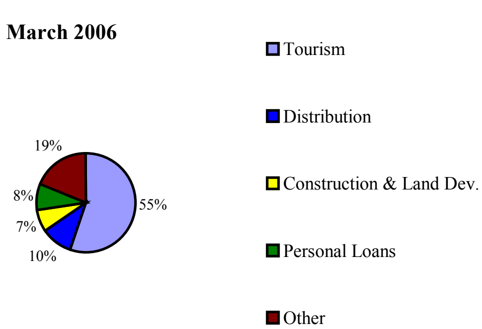
Table 1.8

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

	Mar-05	Dec-05	Mar-06
Agriculture & Fishing	1.6	1.5	0.8
Mining & Quarrying	0.0	0.0	1.2
Manufacturing	4.0	-3.0	-2.5
Construction & Land Development	0.5	-1.6	0.8
Transport, Storage & Comm.	12.1	5.1	-0.8
Electricity, Gas & Water	-0.3	0.0	0.0
Distribution	0.4	8.0	5.4
Tourism	0.3	33.4	-27.1
Entertainment	0.0	0.1	-0.2
Professional & Other Services	11.1	0.5	-0.6
Personal Loans	-3.9	-6.4	2.5
Overseas Residents	0.0	0.0	0.0
TOTAL	**25.7**	**37.6**	**-20.5**

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





For the two months ended February 2006, the weighted average rate on domestic currency loans to the private sector increased by 27 basis points. This increase in the weighted average rate reflected an increase in all categories except **Instalment** credit. For the 12-month period ended February 2006, the weighted average rate on domestic currency loans increased by 12 basis points, which reflected higher rates on **Mortgage** loans.

There was a 137 basis points increase in the weighted average loan rate on public sector loans during the two months ended February 2006 reflecting an increase in the rate on loans to **Local Government & Other Public Entities.** The weighted average rate on public sector loans at end February 2006 was 57 basis points above the rate observed a year earlier, also reflecting an increase in the rate on **Local Government & Other Public Entities** loans.

The weighted average rate on foreign currency loans decreased to 9.33 per cent at end February 2006 relative to 9.50 per cent at end December 2005. The 27 basis point reduction in the weighted average rate reflected the impact of a lower concentration of loans within the **Personal** category. For the year ended February 2006, the weighted average rate on foreign currency loans rose by 43 basis points, largely representing increases in all categories of loans except **Central Government** loans. This increase in the foreign currency loans rate coincided with rising interest rates in the USA.

Performance Indicators

Consistent with the large repayment of foreign currency loans by the tourism sector, the ratio of private sector credit to the total assets at end March 2006 was 27.7 per cent relative to 28.3 per cent at end December 2005. This was however higher than the 26.9 per cent at end March 2005.

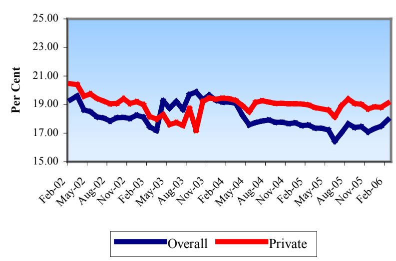
The quality of the banks' loan portfolio, as reflected in the ratio of past due loans (over three months) to total loans, remained comfortably within the 10.0 per cent international benchmark. The 2.3 per cent ratio observed at end March 2006 was equivalent to the outturn at end December 2005, and was below the 2.5 per cent ratio at end March 2005 (see **Figure 1.12**).

Table 1.9

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type Per Cent			
	Feb-05	**Dec-05**	**Feb-06**
Overall	**17.56**	**17.32**	**17.94**
Public Sector	**13.66**	**12.86**	**14.23**
Local Govt. & Other Public Ent.	11.78	11.63	13.42
Central Government	17.46	16.62	16.61
Private Sector	**18.99**	**18.84**	**19.11**
Instalment	24.00	23.24	22.88
Mortgage	19.91	20.38	24.97
Personal	30.29	29.15	29.41
Commercial	14.17	13.67	13.82

Figure 1.11

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



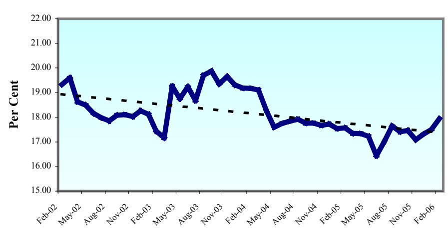
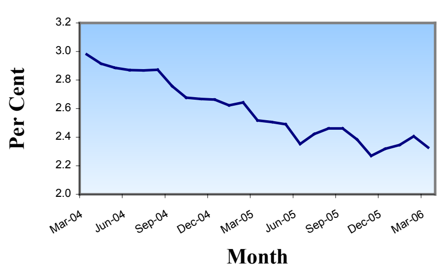


Figure 1.12

Commercial Banks Past due Loans Three Months and over to Total Loans March 2004 to March 2006



BOX 1. THE IMF's CODE OF GOOD PRACTICES ON TRANSPARENCY OF MONETARY POLICY: A SUMMARY OF THE IMF's ASSESSMENT REPORT ON JAMAICA

Introduction

An assessment of the Bank of Jamaica's (BOJ) observance of the International Monetary Fund's (IMF) Code of Good Practices on Transparency of Monetary Policy (Transparency Code) was conducted by an IMF/World Bank team. This was part of a broader Financial Sector Assessment Program (FSAP)[1] mission to Jamaica in 2005. The Transparency Code provides benchmarks for assessing the degree of transparency of the institutional and operational framework for monetary policy. It assumes that monetary policy can be more effective if: (a) the public knows the goals and instruments of policy and, (b) the authority makes a credible commitment to meeting these goals. In addition, good governance calls for central banks to be more accountable in areas where monetary authorities are granted a high degree of autonomy.

The evaluation incorporated (i) a review of relevant laws, regulations and policies (ii) an analysis of documentation provided on the BOJ's website and a variety of BOJ publications and (iii) discussion with staff of the BOJ and selected commercial banks. In general, the BOJ was found to be highly transparent with respect to its conduct of monetary policy.

The Assessment Methodology

Transparency practices are categorized into four broad areas:

(1) Clarity of roles, responsibilities and objectives of central banks for monetary policy,

(2) The openness of the process for formulating and reporting monetary policy decision,

(3) Public availability of information on monetary policy and

(4) Accountability and assurances of integrity by the central bank.

[1] . See BOJ Quarterly Monetary Policy Report, April – June 2004, volume 5 No.1.

Findings

1. Clarity of roles, responsibilities and objectives of central banks for monetary policy

The assessment found that the BOJ Act, updated to 2002, (hereafter called The Act), clearly defines the institutional framework of monetary policy, the nexus between fiscal and monetary operations as well as the agency roles performed by the Bank on behalf of the Government. The Act, however, does not legislate for full transparency and accountability in the conduct of monetary policy for the following reasons:

- The objectives of monetary policy suggest multiple objectives of equal importance.
- While the Central Bank is required to present to the Minister of Finance (The Minister) a report dealing generally with the operations of the BOJ each financial year, there is no explicit requirement for the BOJ to have a monetary policy statement that specifies the targets of the Bank and the policies to be implemented in pursuit of these targets.
- The BOJ is not required to present its monetary policy program to a public body and
- There are no provisions, which confine the Minister's authority to give directives to the Bank in exceptional circumstances and specifies the circumstances.

However, the report of the assessment highlighted that draft legislation, which states explicitly the twin objective of monetary and financial system stability and addresses the other issues mentioned above has been submitted to Parliament.

2. An open process for formulating and reporting monetary policy decision

In practice, the Bank was found to be fully transparent in relation to its process for formulating, implementing and reporting monetary policy decisions. A number of publications on the Bank's website include inter alia, a description of the monetary policy framework and instruments as well as the targets used in pursuit of the objectives of monetary policy. In addition, a number of the Bank's reports review the conduct of monetary policy and the main factors that influenced inflation during each quarter. These publications include the annual report, quarterly monetary policy reports (QMPR), research papers and information pamphlets. Further, the Governor holds quarterly press conferences to discuss monetary policy.

3. Public availability of information on Monetary Policy

The assessment showed that the Bank fully observes transparency practices in this area. Jamaica's participation in the IMF's General Data Dissemination System (GDDS), since early 2003, has meant that the Bank's published statistics meet international standards as they relate to periodicity, timeliness and coverage. Beyond this, the Bank intends to participate in the Special Data Dissemination System (SDDS). With regard to the availability of information on the Bank's operations and policies, the Bank submits to the Minister, in compliance with the Act, a report that deals with its operations over the year. This report is submitted within three months after the end of each financial year and includes a detailed copy of the annual audited accounts and financial statements.

In addition to the aforementioned, the BOJ's balance sheets, which are prepared in accordance with International Financial Regulatory Standards, are posted on its website on a fortnightly cycle. Further, as noted previously, the Bank makes available to the public a wide range of publications on its operations and policies. The text of the Governor's statement delivered at the quarterly press conferences is posted on the BOJ's website. In addition, the pieces of regulation and legislation related to the Central Bank are readily available on the websites of the BOJ and the Ministry of Justice.

To complement the aforementioned, the Central Bank has a functional Public Relations Department that maintain dialogue with the media and responds to the information needs of the general public.

4. Accountability and assurances of integrity by the central bank

The assessment found that the Bank's mode of operation was consistent with the principles of The Code dealing with accountability and integrity. Although the Act does not require the Governor to appear before any public authority to report on the conduct of monetary policy and explain the policy objectives of its institutions, in practice the Governor appears before Cabinet as is needed to discuss the Bank's operations. With regard to the establishment of procedures that ensure the integrity of its operations, the BOJ has an internal audit department, external auditors who audit the Bank's accounts, and an Audit Sub-Committee of the Board, which is chaired by a non-executive director. Internal audit arrangements and procedures, which are submitted to the Board, are publicly disclosed on the BOJ's website. The external auditors are appointed annually by the Board, with the approval of the Minister. As noted previously, the audited accounts and financial statements are published as part of the annual report. With regard to standards for the conduct of the personal financial affairs of the staff of the Central Bank and rules to prevent exploitation of conflicts of interest, there is a policy manual on the intra-net that discusses the Code of Conduct but these are not publicly disclosed. However, standards for the conduct of personal affairs are also governed by the Corruption (prevention) Act. This Act, which is in the public domain, requires staff whose emoluments exceeds a prescribed threshold to file an annual declaration of assets, liabilities, and income to a public commission for the prevention of corruption.

Summary

The assessment of the Bank of Jamaica's observance of the IMF's Standard and Code for Monetary Policy Transparency showed that there is a high degree of transparency in the conduct of monetary policy. The Bank observed 42 of the 46 practices evaluated (see **Table 1**). The report of the assessment highlighted, however, a number of issues that have arisen from the fact that the provisions of the law have lagged behind the practices.

Table 1

Assessment Grade	Tally
Observed	42
Broadly observed	0
Partly observed	3
Not observed	1
Not applicable	0

The issues which need to be addressed include (i) clarifying the objectives of monetary policy in the law (ii) legislating the preparation of a monetary policy statement that articulates the program objectives and instruments to be used (iii) legislating the presentation of the monetary policy statement before a public body and (iv) amending the law to ensure that the circumstances in which the Minister overrides central bank policy decisions be limited to exceptional circumstances and the exceptional circumstances are clearly specified.

The Report highlighted that the authorities generally agreed with the Assessment and had made it known that a draft legislation to amend the BOJ Act had been prepared and submitted to Parliament. The draft legislation contains provisions that address several of the issues highlighted by the assessment

Inflation concerns subside and confidence grows.

Table 1.10

GOJ Public Domestic Debt Raising January - March 2006			
	Amount allotted (J$MN)	Amount maturing (J$MN)	Net Maturities (J$MN)
Treasury bills	2,600.0	2 300	-300.0
Fixed Rate LRS	0.0	600.0	600.0
Var. Rate LRS	5,174.8	738.1	-4 436.7
Fixed Rate Inv. Deb.	5,632.8	17 712.7	12 079.9
Var. Rate Inv. Bond	12,020.7	0.0	-12 020.7
Fixed Rate Inv. Bond	0.0	0.0	0.0
US$ indexed bond	375.1	5 477.0	5 101.9
Fixed Rate registered bond	0.0	0.1	0.1
Fixed Rate US-denom. Bond	0.0	2 268.3	2 268.3
Total	**25 803.4**	**29 096.2**	**3 292.8**

Table 1.11

Placements and Maturities* in BOJ OMO Instruments : January - March 2006		
	Maturities (%)	Placements (%)
30-day	34.6	45.2
60-day	3.3	5.0
90-day	8.2	9.4
120-day	2.6	2.6
180-day	7.0	5.3
270-day	3.0	5.4
365-day	41.4	27.1

*Excludes overnight transactions during the period

Bond Market

During the March 2006 quarter, there was a general improvement in the conditions in the local bond market. In the context of falling inflation, investors lowered their inflation expectations, though at a sluggish pace. Consequently, there was a reduction in demand for hedge instruments relative to the previous quarter as well as a decline in interest rates on GOJ debt. The decline in interest rates was also in a context where the Government ran a fiscal surplus for the quarter and net redeemed on its publicly issued instruments.

The floating of a US$250 million bond on the international capital market by the Government at a reduced rate, as well as a continued decline in yields on secondary trades of GOJ global bonds, signalled continued confidence by international investors. This was in the context where international rating agencies reaffirmed their stable outlook on Jamaica. Despite the US interest rate increase, GOJ global bonds remained attractive.

During the March 2006 quarter, net-maturities of publicly issued GOJ debt in the domestic market amounted to $3 292.8 million (see **Table1.10**). This was in a context where the Government ran a fiscal surplus for the quarter. Of the $25.8 billion in gross issues, most of the debt was issued at variable rates, as the appetite for variable rate instruments was still relatively strong (see Appendix C Table 8B and Table 1.10). In spite of this preference, investors were willing to take up these instruments with a longer repricing period as these instruments were mostly repriced at a 6-month interval with a margin tied to the related weighted average Treasury bill yield (WATBY). This was in contrast to the previous quarter when the 3-month WATBY was used for repricing. Additionally, variable rate debt was also issued with a longer term to maturity relative to the previous quarter.

In addition, there was a more favourable response in the March quarter to the issue of fixed rate instruments. During the quarter, a fixed rate LRS auction was also conducted for the first time since the September quarter. The yield declined by 23 basis points to 14.07 per cent relative to the previous auction and was significantly oversubscribed. The increased demand for fixed rate instruments reflected the improved confidence of the investing public.

Table 1.12

Treasury Bill Auctions and Maturities January - March 2006				
Issue Date	Tenor (days)	Avg. yield (%)	Allotment (J$M)	Amount Maturing (J$M)
27-Jan-06	182	13.30	500.0	
	91	12.82	300.0	
				800.0
24-Feb-06	182	13.24	500.0	
	91	12.83	400.0	
				800.0
24-Mar-06	182	13.18	500.0	
	91	13.16	400.0	
				700.0
Total			2600.0	2300.0

Treasury bill yields decrease

Average yields on 91-day and 182-day tenors of GOJ Treasury bills declined during the quarter by 18 basis points and 37 basis points, respectively. Hence, at end March, the yields on these respective tenors were 13.16 per cent and 13.18 per cent. The narrowing of the differential was influenced by an increase in the average yield on the 91-day tenor in the last issue of the quarter (see Table 1.11).

365-day OMO instruments occupy an increased proportion of total net take-up.

Given the Government's moderate need for financing and a general improvement in the macroeconomic conditions, investors sought to acquire other Jamaica Dollar denominated assets, namely BOJ instruments. Early in the quarter, investors were mainly attracted to the BOJ instruments with 30-day tenors. However, the 365-day tenors were to increasingly gain favour as the confidence of the investing public increased. At the end of the review period, the 30-day tenors accounted for 45.2 per cent of the total placements, while 365-day instruments accounted for 27.1 per cent (see Table1.12). This compares to 48.5 per cent and 15.6 per cent in the respective tenors during the previous quarter.

Interest rates in the private money market were on average, lower and less volatile than those of the previous quarter. The lower rates were indicative of the higher liquidity levels in the system. Periodic spikes in rates coincided largely with the Government's debt-raising activities (see **Figure 1.13**).

The average change in global bond yields was a decline of 0.675 percentage points. The concomitant increase in bond prices indicate the confidence of investors, which was reflected in the country's 'stable' rating by international rating agencies. This appetite for GOJ global bonds comes against a contrasting background of a 50 basis point increase in the US Federal Funds Rate to 4.75 per cent. Given the demand for Jamaica's Sovereigns, the GOJ issued an 8.5 per cent coupon bond on 28 February for 30 years. The bond raised US$250 million and was heavily oversubscribed. This bond has the longest maturity and lowest coupon rate of all GOJ global bonds in issue.

Figure 1.13

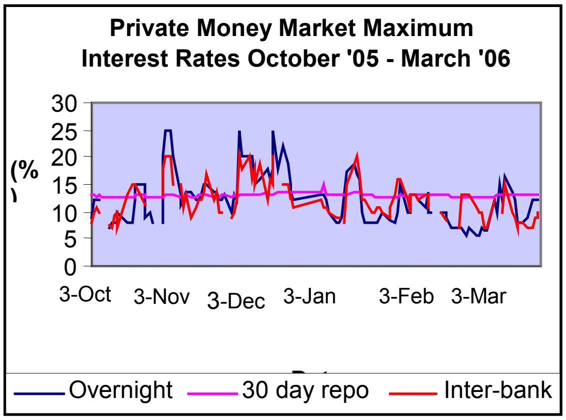


Figure 1.14

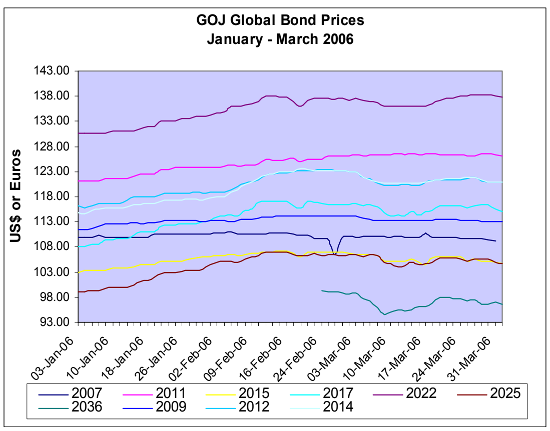
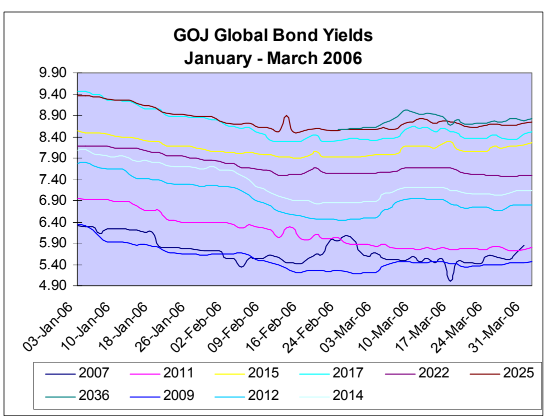


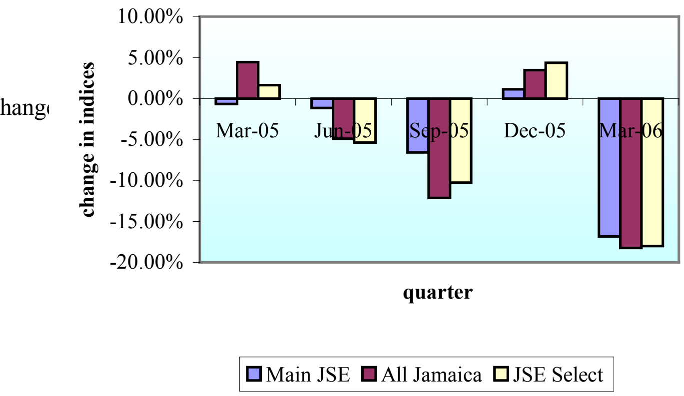
Figure 1.15



Stock Market

The stock market recorded a large decline in the March 2006 quarter reflecting investors' reaction to the weak earnings results for several listed companies. The weak performance of the equities market occurred despite a continued fall in inflation and improved stability in the foreign exchange market.

Figure 1.16
Quarterly Growth of the JSE Index – March 2005 – March 2006

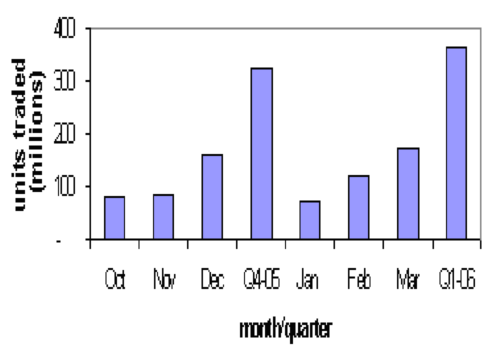


Source: Jamaica Stock Exchange

Despite the prevailing climate of relative macroeconomic stability, there were large declines in all three stock market indices during the March 2006 quarter. The Main Jamaica Stock Exchange (JSE) Index recorded a 16.9 per cent decline while, the Jamaica Select Index and the All Jamaica Composite Index decreased by 18.0 per cent and 18.2 per cent, respectively (see **Figure 1.16**). Weak earnings of many of the listed companies together with the uncertainty surrounding the changes in political leadership made investors more cautious about long-term investment in the local stock market. In addition, the lacklustre demand for the Supreme Ventures Ltd[2] Initial Public Offer (IPO) further exacerbated the negative investor sentiment.

The weak outturn in the March 2006 quarter was consistent with the trend in the stock market that was observed for most of 2005 (see **Figure 1.17**). Consequently, there was an increase in the sales of shares by investors in an effort to minimize capital losses during the quarter (see **Figure 1.17**). These funds were diverted from local equities towards relatively more stable returns from fixed income and foreign exchange investments.

Figure 1.17
Monthly and Quarterly Volume of Shares Traded
October 2005 – March 2006



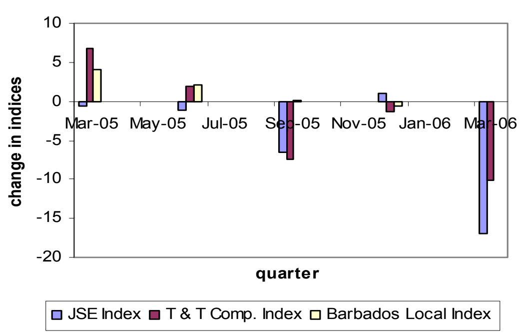
Many of the listed companies continued to experience lower profit margins in their operations in 2005. In particular, financial companies were affected by the lower interest rate environment. The ten stocks that experienced the largest declines during the quarter represented a wide cross-section of sectors. The two worst performers were the Dyoll Group and Palace Amusement Company Limited. There were only five stocks that provided capital gains during the March 2006 quarter (see **Table 1.13**). The substantial gains made by these companies during the quarter were largely attributable to favourable earnings performance during 2005. Among the top performers were Salada Foods and Goodyear Jamaica ltd.

[2] Supreme Ventures Limited was listed on the Jamaica Stock Exchange in January, 2006

Table 1.13
Advancing and Largest Declining Stocks
March 2006 Quarter

Sectors / Companies	Price at 31-Mar-06 $	Qtr. Change %
Advancing Stocks		
Manufacturing		
Jamaica Producers Group	35	1.4
Salada	20	99.8
Financial		
FCIBJ	19	5.5
Other Services		
CMP	2.6	8.3
Goodyear	12.5	12.3
10 Largest Declining Stocks		
Finance		
Mayberry Investments	1.99	-46.2
Capital & Credit Merchant Bank	17.5	-22.2
Insurance		
Guardian holdings	245	-35.5
Dyoll Group	0.6	-67.6
Manufacturing		
Caribbean Cement Co	4.15	-56.3
Jamaica Broilers	3.05	-25.4
Montego Freeport	1.45	-25.6
Conglomerate		
Grace Kennedy	63.25	-27.7
Other		
Palace Amusement	31.45	-62.0
Communications		
Gleaner Company	2.15	-23.2

Figure 1.18
Quarterly Growth of Regional Indices –
March 2005 – March 2006



There were also weak performances in the other major regional stock markets during the quarter. In Trinidad & Tobago, the Composite Index recorded a decline of 10.2 per cent while for Barbados, the Local Index declined by 0.1 per cent (see **Figure 1.18**).

For FY2005/06, the local equity market performed poorly. This was reflected in an 18.8 per cent decline in market capitalization to end the fiscal year at $874 684.0 million. The main JSE index, Jamaica Select Index and All Jamaica Composite Index recorded declines of 22.4 per cent, 27.4 per cent and 29.3 per cent, respectively. This was in contrast to respective gains in the indices of 12.4 per cent, 15.5 per cent and 29.4 per cent for FY2004/05.

Figure 1.19
Percentage Change in Weighted Average Selling Exchange Rate (e.o.p.) (J$1.00= US$)

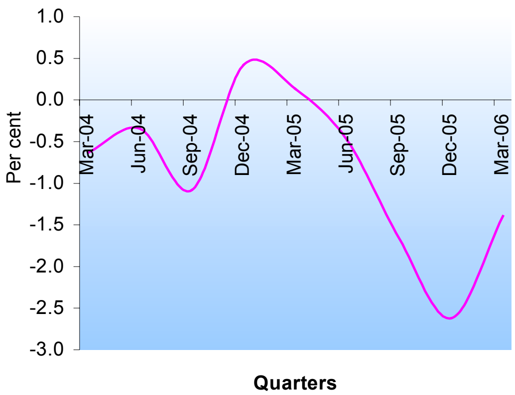
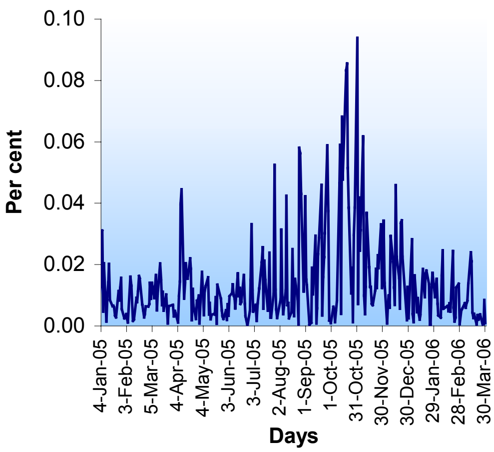
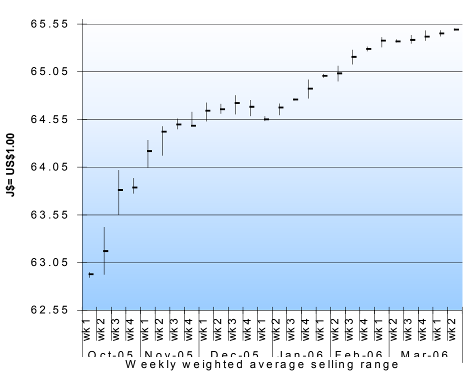


Figure 1.20
Exchange Rate Volatility (*)



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

Figure 1.21
Weekly Exchange Rate Trading Range



Foreign Exchange Market

The foreign exchange market was relatively stable during March 2006 quarter, evidenced by reduced market volatility (see Figure 1.20) and a slow down in the rate of depreciation (see Figure 1.19) when compared with the previous quarter. Market conditions were underpinned by a significant improvement in foreign currency flows, partly related to seasonally higher net earnings from the trade in goods and services and to a rebound in net private capital inflows. The increase in private capital flows reflected an improvement in overall confidence as inflation expectations moderated and the GOJ successfully placed a Eurobond on the international capital market in February.

In the context of the improved flows and consequent stability in the foreign exchange market, BOJ was able to change its intervention stance in the market to net buying from net selling. The NIR consequently ended the quarter above the programmed level. Gross reserves at end-March 2006 represented 20.2 weeks of estimated goods and services imports, well above the international benchmark of 12.0 weeks.

The weighted average selling rate of the Jamaica Dollar vis-à-vis the US dollar depreciated by 1.4 per cent during the March 2006 quarter, which compares favourably with an average rate of depreciation of 2.1 per cent over the preceding two quarters (see **Figure 1.19**). This movement brought the exchange rate to J$65.50 = US$1.00 at end-March 2006, relative to J$64.58 = US$1.00 at the end of the previous quarter. The outturn for the quarter resulted in a depreciation of 6.4 per cent for FY2005/06, lower than the average rate of 8.0 per cent over the past five fiscal years.

The market was relatively stable during the review quarter as reflected in a contraction in the weekly trading range to an average of J$0.09 for the review quarter, relative to an average of J$0.21 for the December 2005 quarter (see **Figure 1.21**)[3]. Similarly, the foreign exchange rate bid-ask spread, expressed as a percentage of the buying rate, declined by 17.1 per cent in the review period, compared with an increase of 10.0 per cent in the preceding quarter (see **Figure 1.22**).

For the review quarter, the conditions in the foreign exchange market were

[3] 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.

Figure 1.22
Foreign Exchange Spread as a Percentage of Buying Rate

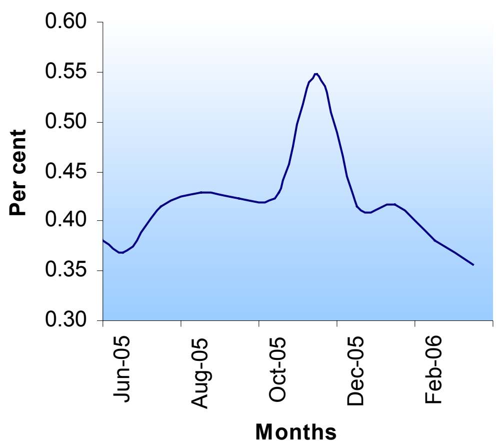


Table 1.14
Foreign Exchange Cash Flows*

	US$mn 2005		2006	Change Relative To Previous	
	Jan-Mar	Oct-Dec	Jan-Mar	qtr	yr
Net Current Inflows	-190.6	-349.1	-150.9	*198.2*	*39.7*
Current Inflows	839.7	836.1	931.7	*95.6*	*91.9*
Current Outflows	1030.3	1185.2	1082.6	*-102.7*	*52.2*
Net Private Capital Inflows	283.4	146.2	202.6	*56.4*	*-80.9*
Balance	92.8	-202.9	51.7	*254.6*	*-41.2*

** BOJ Estimates*

Table 1.15

Net International Reserves (US$MN)

Month	Stock	One Month Change	Three Month Change
Mar-05	1901.6	70.5	43.1
Apr-05	2010.4	108.9	162.9
May-05	2074.5	64.1	243.5
Jun-05	2156.8	82.3	255.2
Jul-05	2149.2	-7.6	138.8
Aug-05	2117.5	-31.7	43.0
Sep-05	2119.0	1.5	-37.8
Oct-05	2079.0	-40.0	-70.3
Nov-05	2093.8	14.8	-23.7
Dec-05	2087.4	-6.3	-31.6
Jan-06	2093.5	6.1	14.5
Feb-06	2024.2	-69.2	-69.5
Mar-06	2078.1	53.9	-9.3

influenced primarily by an estimated decline of approximately US$200.0million in net demand for foreign exchange to finance current account transactions, relative to the December 2005 quarter (see **Table 1.14**). This compares favourably with an average seasonal decline for the same quarter of approximately US$110.0 million over the past five years. In addition, there was an estimated increase of approximately US$56.0 million in net private capital inflows, relative to the December 2005 quarter.

The lower net demand for current account transactions was mainly attributable to an estimated decline of approximately US$100.0 million in outflows and a similar increase in inflows. The contraction in outflows reflected seasonally lower payments for goods imports (including fuel) and services, while the increase in earnings emanated from agricultural exports, mining, and tourism.

With respect to private capital flows, the expansion was partly related to a US$12.9 million decline in the net foreign currency position of Authorised Dealers, the major intermediaries in the market. Foreign exchange holders also sold some amount of foreign currency to meet their tax obligations at the end of the fiscal year. The improvement in net private capital inflows occurred in the context of the maturation of a GOJ US dollar indexed bond in February as well as the general improvement in market sentiments. Market sentiments during the quarter reflected waning inflation expectations as well as the reaffirmation of Jamaica's credit worthiness by a number of international rating agencies. The Government's successful Eurobond offer of US$250.0 million in February 2006 also helped to influence investor's perception about the economy.

Consistent with the relative stability in the foreign exchange market, there was a significant change in Bank of Jamaica's intervention. Relative to net sales (excluding surrenders and regular mining related purchases) of US$272.1 million in the December 2005 quarter, the Bank net purchased approximately US$1.0 million from the market over the review quarter. The NIR fell by a marginal US$9.3 million to US$2 078.1 million, but was US$2.0 million above the adjusted ISP target for March 2006 (see **Table 1.15**). In this context, the Bank's gross reserves at end-March 2006 stood at US$2 372.9 million, representing 20.2 weeks of estimated goods and services imports, well above the international norm of 12.0 weeks.

2. Real Sector Developments

Table 2.1

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

*The Bank's preliminary assessment of the real sector suggests that the economy continued to grow in the March 2006 quarter, at a rate similar to that recorded over the previous two quarters. This estimated growth is chiefly attributed to recovery in **Agriculture** as well as continued expansion in **Tourism**. From the perspective of aggregate demand, the expansion in economic activity reflected increases in private consumption, investment spending and an improvement in net external demand, which were partially offset by a decline in Government spending.*

*The estimated expansion in the March 2006 quarter, combined with growth of 1.9 per cent for the period April to December 2005, imply an increase in economic activity in the range of 1.8 per cent to 2.1 per cent for fiscal year 2005/06, in comparison to 0.4 per cent in FY2004/05. This growth was realised despite the impact of adverse weather conditions during the year. Further, the expansion was underpinned by relative stability in the financial markets and positive investor sentiments, which translated into an increase in loans to the productive sectors. The accelerated growth within the fiscal year reflected strong recovery in **Agriculture**, robust expansion in **Construction** as well as, the tourism industry.*

Aggregate Supply

Buoyant growth due to partial recovery in Agriculture and tourism

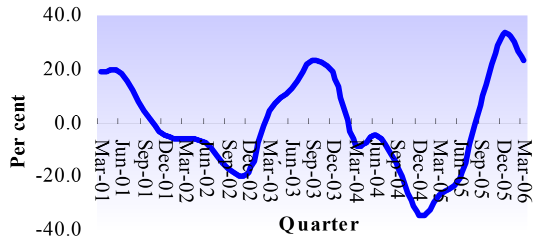
An assessment of the performance of the real sector for the March 2006 quarter indicates a notable expansion in overall GDP, relative to the March 2005 quarter. Significant expansion was noted in ***Agriculture*** with partially offsetting declines in ***Mining***, ***Manufacturing*** *and* ***Construction***. Among the services sectors, the tourism industry reflected significant growth, while moderate expansion were estimated for ***Distributive Trade***, ***Transport***, ***Storage & Communication***, ***Financing & Insurance*** and ***Real Estate & Business Services***. There was a partially offsetting decline in ***Electricity and Water***.

The recovery in ***Agriculture, Forestry & Fishing*** that began in the December 2005 quarter continued in the review period. There were noticeable increases in both domestic and export crop production

Figure 2.1

Trends in Domestic Crop Production

(12-Month change)



Source: Ministry of Agriculture, Bank of Jamaica

Figure 2.2

Trends in Export Crop Production

(12-Month change)

Source: Ministry of Agriculture, Bank of Jamaica

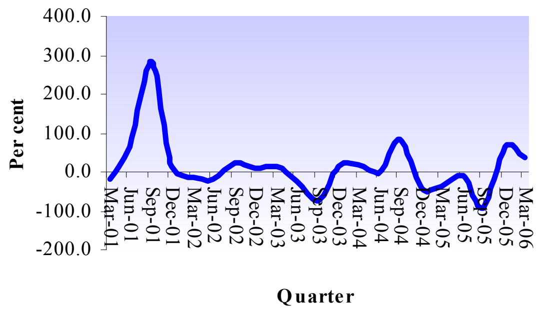
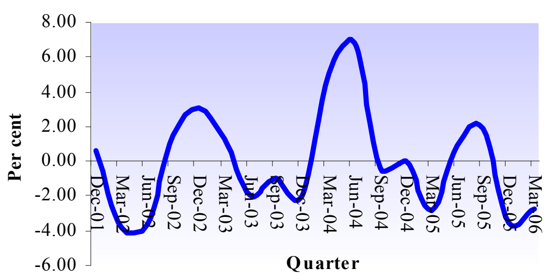


Figure 2.3

Manufacturing: Growth Rate

(12-Month change)



Source: STATIN, Bank of Jamaica

during the March 2006 quarter, reflecting recovery from adverse weather conditions experienced over the previous two years (See **Figures 2.1 and 2.2**). For domestic agriculture, there were significant improvements in the production of plantains, potatoes, fruits and yams. The performance of *Export* was largely attributed to the sizeable growth in banana, cocoa and sugar cane production during the period. The agriculture sector benefited from notable increases in loans from the financial sector in the September and December 2005 quarters, as well as some Government assistance, which facilitated the rehabilitation process.

Manufacturing is estimated to have declined in the review quarter (see **Figure 2.3)**. This contraction is relative to the downturn of 2.9 per cent observed in the corresponding period of 2005 and emanated primarily from *Food, Beverages & Tobacco* as *Other Manufacturing* is estimated to have improved during the period.

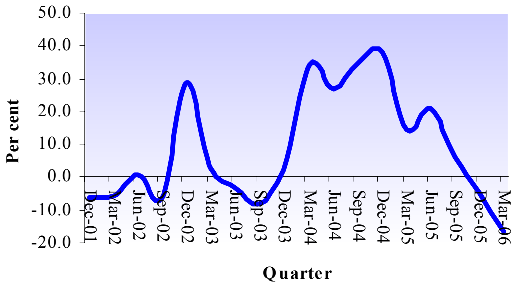
O*ther Manufacturing* is estimated to have registered considerable growth in the quarter due primarily to the resumption of full operations at the petroleum-refining plant following the temporary closure in the similar quarter of 2005. This growth was complemented by increases in chemical products but was weakened by declines in the non-metallic mineral industry, driven largely by the fallout in cement production during the quarter.

The decline in *Food, Beverages and Tobacco* was driven primarily by a fall in the production of tobacco products, which was partially offset by increases in sugar, molasses and rum, food and alcoholic beverages. The decline in tobacco products reflected the closure of the sole cigarette factory, following the relocation of the major manufacturing entity to another jurisdiction within the CSME.

Notwithstanding the overall decline in this sub-sector, there were notable improvements in sugar production, which stemmed from the initiatives of the Sugar Corporation of Jamaica to significantly improve sugarcane production and factory operations during the 2005/06 crop year.

Figure 2.4

Trends in Cement Production
(12-Month change)



Source: Carib Cement Company, Bank of Jamaica

Figure 2.5

Trends in Alumina Production
(12-Month change)
Source: Jamaica Bauxite Institute

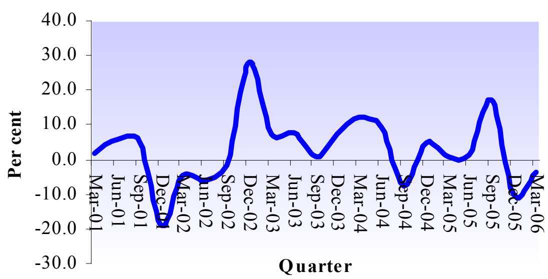
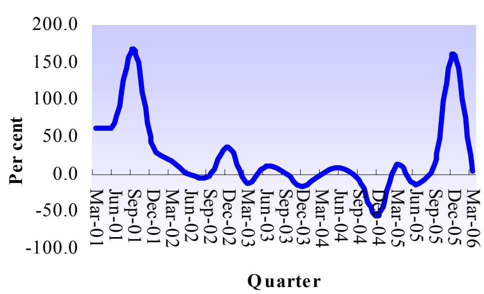


Figure 2.6

Trends in Crude Bauxite Production
(12-Month change)



Source: Jamaica Bauxite Institute

It is estimated that activities in ***Construction & Installation*** declined during the March 2006 quarter compared to the average growth of 6.1 per cent observed over the past eight quarters. During the review period, the main indicators of activity for this sector showed mixed results. Cement production was estimated to have declined by 16.7 per cent (see **Figure 2.4**) while the importation of construction material increased significantly by 60.0 per cent, relative to the similar quarter of 2005. The fall out in cement production was due to internal problems relating to the quality of cement produced by the sole cement factory. The performance of the residential construction segment was marginal as housing completions grew by 22.4 per cent during the review period while housing starts decline by of 55.5 per cent in while.

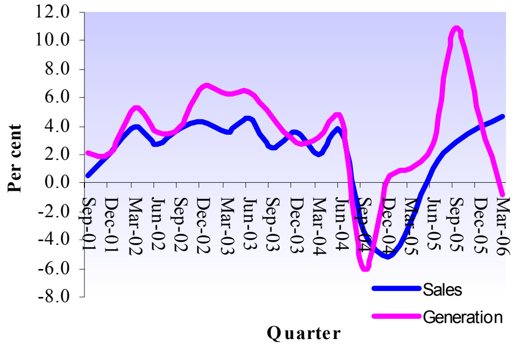
Mining & Quarrying is estimated to have declined moderately during the March quarter, following average growth of 3.9 per cent over the last eight quarters. The contraction in mining activities was influenced by prolonged labour disputes in the alumina industry, which significantly affected factory operations. As a result, alumina production declined by 3.5 per cent, the impact of which was partially offset by growth of 4.7 per cent in crude bauxite production[4] (see **Figure 2.5** and **2.6**). The operating rate of the alumina industry declined to 93.3 per cent from 96.7 per cent, while that of the bauxite industry increased to 100.0 per cent from 96.8 per cent in the similar period of 2005.

Electricity & Water is estimated to have contracted marginally during the review period, relative to average growth of 2.1 per cent observed over the last eight quarters. This contraction was influenced by a decline of 0.9 per cent in electricity generation (see **Figure 2.7**). Of note, for the quarter, electricity sales improved by 4.7 per cent, relative to the comparable period in 2005 influenced by greater demand from industrial customers.

[4] [4] In calculating the value added for the mining industry a 30/70 ratio is applied to relative movements in total bauxite and alumina production, respectively.

Figure 2.7

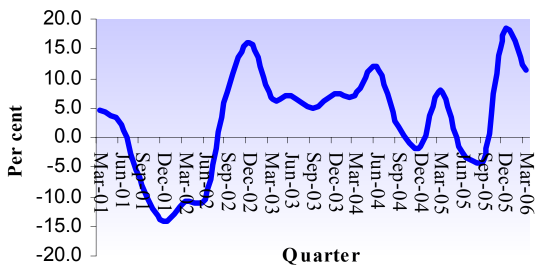
Electricity Generation & Sales
(12-Month change)



Source: JPS & Bank of Jamaica

Figure 2.8

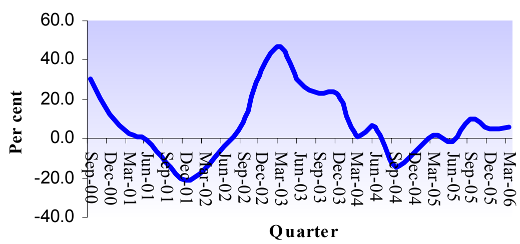
Total Visitor Arrivals
(12-Month change)



Source: Jamaica Tourist Board

Figure 2.9

Cruise Passenger Arrivals
(12-Month change)



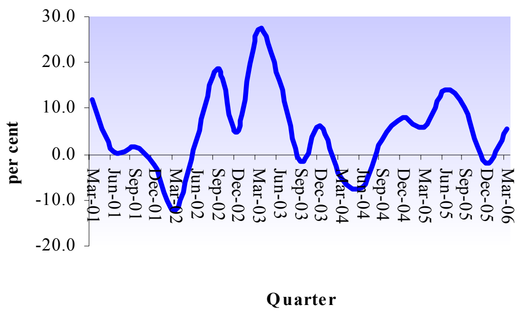
Source: Jamaica Tourist Board

Growth within ***Transport, Storage & Communication*** was attributed primarily to an expansion within *Transport*, in particular air transportation and to a lesser extent activities within *Communication*. With respect to the former, growth in air transportation was inferred from increases of 8.8 per cent and 3.0 per cent in visitor arrivals and air cargo movement, respectively relative to the March 2005 quarter. In relation to water transportation, the number of ships calling at Jamaican ports grew by an estimated 12.1 per cent, while domestic cargo movements deteriorated marginally by 2.6 per cent.

There was an overall improvement for ***Miscellaneous Services*** in the March 2006 quarter. This was influenced by the continued growth in *Hotel, Restaurant & Clubs* following two consecutive periods of contractions due to an active hurricane season. During the review period, total stopover visitors grew by 11.5 per cent, while cruise passenger arrivals expanded by 6.1 per cent (see **Figures 2.8** and **Figure 2.9**). In that context, an increase of 19.5 per cent in visitor expenditure was recorded, relative to the corresponding quarter in the previous year.

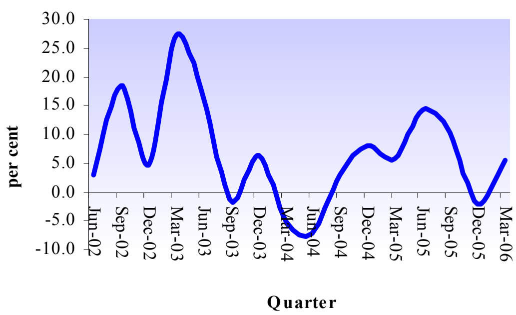
Based on the estimated growth in the March 2006 quarter, real GDP growth of between 1.8 per cent and 2.2 per cent is envisaged for fiscal year 2005/06. The major growth poles in the fiscal period emanated from *Agriculture, Transport, Storage & Communication*, *Construction* as well as *Distributive Trade* and tourism. The improvement in *Agriculture* represented partial recovery over reduced levels in the previous fiscal year arising from the adverse impact of weather conditions on agricultural output. The growth in *Transport, Storage & Communication* reflected normalisation over depressed levels in the previous fiscal year consequent on unfavourable weather conditions that affected both sea and air transport. Growth in *Construction & Installation* was driven by the number of public sector infrastructure projects, as well as the construction of a number of hotels. The former includes work on Highway 2000, North Coast Highway as well as the inner-city housing project and expansion of the Kingston port facility along with the international airports. Additionally, the continued expansion of the telecommunication infrastructure served to enhance growth in *Installation*. Growth during the period prevailed despite the impact of adverse weather conditions throughout the year.

Figure 2.10
Trends in Imports
(12-Month change)



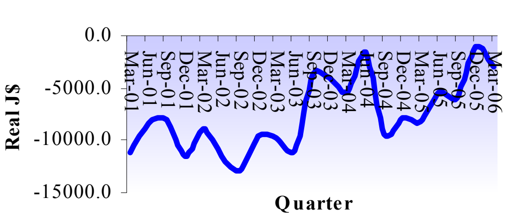
Source: STATIN, Bank of Jamaica

Figure 2.11
Trends in Consumer Confidence Index
(12-Month change)



Source: Jamaica Conference Board

Figure 2.12
Trends in Net External Demand
(12-Month change)



Source: Bank of Jamaica

Further, the expansion was underpinned by relative stability in the financial markets and positive investor sentiments, which translated into an increase in loans to the productive sectors. Notably, significant investments were made in tourism and **Mining**.

Aggregate Demand

The assessment of aggregate demand for the quarter suggests a notable increase in spending, relative to the comparable period of 2005. This reflected expansion in ***Private Consumption*** and ***Gross Fixed Capital Formation,*** as well as an improvement in ***Net External Demand***. A partially offsetting decline in ***Public Consumption*** was estimated during the review quarter.

The estimated improvement in ***Private Consumption*** spending during the review period was based on real increases of 10.0 per cent and 4.5 per cent in consumption tax receipts and total imports of goods and services, respectively (see **Figure 2.10**). In addition, credit card receivables grew in real terms by an estimated 11.0 per cent in the review period. The performance of private consumption was consistent with the survey of consumer confidence conducted by the Jamaica Conference Board, which indicated that confidence improved by 13.7 per cent, relative to the March 2005 quarter (see **Figure 2.11**)[5].

With respect to ***Net External Demand***, there was a noteworthy improvement during the review period, when compared to the corresponding period of 2005 (see **Figure 2.12**). The improvement was influenced by an increase of 18.6 per cent in exports of goods and services, which was partly offset by growth of 10.0 per cent in the import of goods and services. The performance of export was driven primarily by an increase of 89.0 per cent in sugar and significant growth in banana. In addition, there was a general improvement in services driven by net travel receipts. The growth in imports was attributed to significant increases in capital goods.

[5] With regard to expected job prospects and expect change in income categories, consumers' expectations improved by 19.7 per cent and 13.7 per cent, respectively, in the quarter.

Indicators of real investment demand during the quarter suggest a moderate expansion in ***Gross Fixed Capital Formation***, relative to the comparable period of 2005. This expansion was inferred from an estimated real increase of 20.6 per cent in capital goods imports particularly for the mining and construction industries.

Continued decline in Government spending

The declining trend in ***Public Consumption*** since September 2004 continued into the March 2006 quarter. Government's expenditure on wages & salaries during the review period declined in real terms by 11.0 per cent in a context of the wage restraint under the memorandum of understanding between the Government and public sector (See **Appendix A: Fiscal Developments**).

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3. International Economic Developments

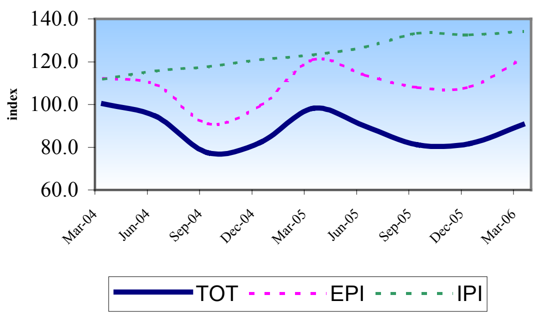
Jamaica's terms of trade improved during the March quarter suggested by an increase in the implicit price of Jamaica's tourism product[6] and a rise in the price of alumina on the international market. However, increases in the price of oil and grains partly offset these improvements and signaled continued stimuli to domestic prices.

There was some monetary tightening in the economies of Jamaica's main trading partners. In particular, the Federal Reserve continued its policy of raising short-term interest rates during the review period. However, in the context of continued buoyancy in global liquidity, yields on long-term US bonds adjusted relatively slowly.

Strong demand for emerging market bonds led to lower yields and thinner spreads relative to US Treasury Bonds during the quarter. The spread between the yields on Jamaican sovereign bonds and US Treasuries also narrowed.

In the area of international trade, the Government of Jamaica reduced the import tariff on cement in order to bridge a shortfall in the domestic market.

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



Jamaica's terms of trade improved during the March 2006 quarter

Terms of Trade

Jamaica's terms of trade (TOT)[7] improved significantly during the March 2006 quarter by an estimated 10.8 per cent, relative to the December 2005 quarter (see **Figure 3.1**). This compares with an average increase of 14.0 per cent for the past four March quarters. In the context of the improvement in the review quarter, the TOT index at end March 2006 was 2.6 per cent lower than the index of at end March 2005, relative to a fall of 6.3 per cent for FY2004/05.

The rise in the TOT index for the review period reflected a 12.3 per cent increase in the export price index (EPI)[8], which was partly offset by an

[1] This measure is the ratio of the average tourist expenditure to their average length of stay.
[7] The Bank estimates a measure of Jamaica's terms of trade, which is a ratio of the index of export prices to the index of import prices. An improvement in the terms of trade follows if export prices rise more quickly than import prices.
[8] The EPI is comprised of a weighted average of prices on exported alumina, coffee, cocoa, sugar, banana and a measure of the price of the tourism product.

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

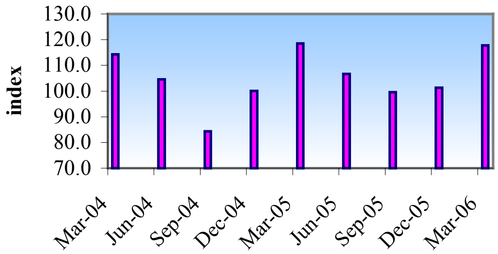


Figure 3.3
Monthly Average Crude Oil Prices
Jan 04-Mar 06

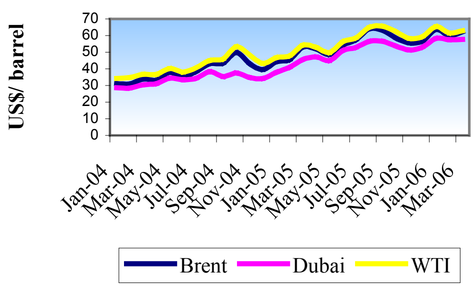
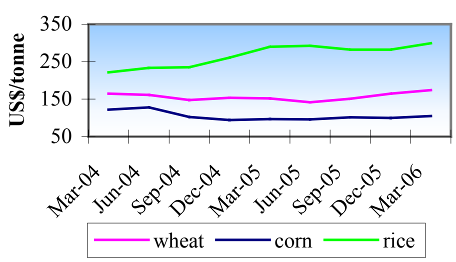


Figure 3.4
Quarterly Prices of Selected Commodities
Mar 04 to Mar 06



increase of 1.3 per cent in the import price index (IPI)[9]. The increase in the EPI over the review period was mainly attributable to an increase of 16.2 per cent in the tourism implicit price index (see **Figure 3.2**), indicative of the growth in demand for Jamaican holidays during the winter tourist season. This rise in the EPI was also influenced by an increase of 5.3 per cent in the price of alumina during the quarter. With respect to the IPI, the increase was primarily due to higher fuel costs, supported by increases in the prices of imported construction-related and consumer goods.

As measured by the benchmark West Texas Intermediate (WTI) index, the price of crude oil rose by 5.5 per cent to average US$63.30 per barrel for the quarter (see **Figure 3.3**). This increase mainly reflected the impact of geopolitical concerns. In early January, fuel prices were affected by a gas price dispute between Russia and Ukraine, which resulted in a temporary disruption in gas supplies to the rest of Europe. The threat of possible economic sanctions against Iran by the United Nations Security Council, also led to worries about the security of oil supplies from that country during the quarter. There were also supply concerns in Nigeria, where attacks on oil firms resulted in significant disruptions to oil production.

With respect to imported food inputs, the prices of rice, wheat and corn rose during the quarter by 5.9 per cent, 5.7 per cent and 5.2 per cent, respectively (see **Figure 3.4**), representing potential stimuli for domestic inflation. Adverse weather conditions in the main wheat-producing areas was the primary factor behind the higher prices. The rise in corn prices was influenced by strong growth in demand by ethanol plants in the USA, while rice prices responded to the rationing of exports by Thailand and Vietnam, two of the world's largest producers.

International Capital Market Developments

Short-term interest rates

The general rise in key interest rates among Jamaica's main trading partners, which started in 2004, continued during the March 2006 quarter (see **Table 3.1**). In the USA, the Federal Reserve (Fed) raised the target for the federal funds rate twice by 25 basis points from 4.25 per cent in December to 4.75 per cent in March. The Fed's decision to tighten monetary policy was based on concerns about future inflation, fuelled by

[9] The IPI is comprised of a weighted average of prices on fuel, imported foods, consumer durables and non-durables, industrial raw materials, as well as capital goods for transport and equipment, in addition to construction raw materials.

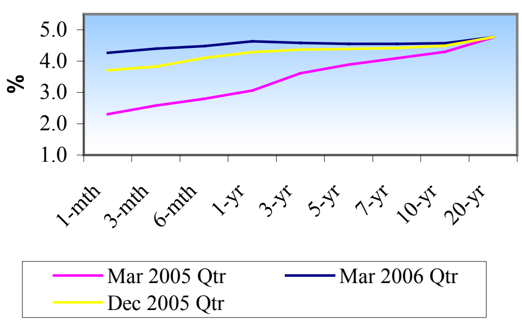
Table 3.1

Selected Key Interest Rates
Dec-05 to Mar-06

	Dec-05	Jan-06	Feb-06	Mar-06
USA [a]	4.25	4.50	4.50	4.75
Canada [b]	3.25	3.50	3.50	3.75
Euro zone [c]	2.25	2.25	2.25	2.50
UK [c]	4.50	4.50	4.50	4.50
Japan [d]	0.10	0.10	0.10	0.10

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

Figure 3.5
US Treasuries Yield Curve



strong output growth and recent increases in the prices of energy and other commodities.

The Bank of Canada (BoC) and the European Central Bank (ECB) also raised their official interest rates in the March 2006 quarter in response to expected inflationary pressures. The BoC increased its benchmark rate by 50 basis points to 3.75 per cent, while the ECB raised its repo rate[10] to 2.50 per cent from 2.25 per cent. The central banks of the United Kingdom and Japan, however, left their key interest rates unchanged during the quarter.

In line with the adjustments in the federal funds rate, the yields in the secondary market on short-term US Treasury Bills increased by an average of 48 basis points across the 3-month to 1-year tenors. Rates in the international private markets also trended up, albeit by less than the adjustments in the federal funds rate. The London Interbank Offered Rate (LIBOR)[11] rose by an average of 25 basis points across the 3-month to 1-year tenors.

Long-term interest rates

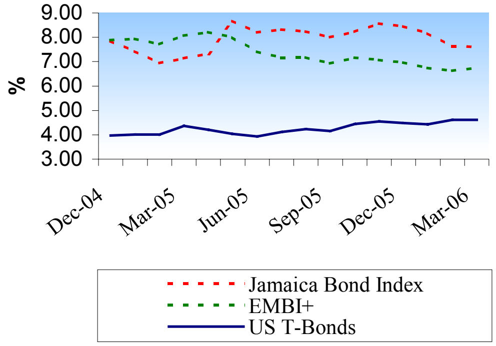
While short-term interest rates generally moved in line with changes in official rates, interest rate adjustments among longer-term securities were considerably smaller. For example, the yields on the benchmark 10-year US Treasury Bonds increased by an average of 8.0 basis points during the March 2006 quarter, relative to an increase of 35.0 basis points on 1-year instruments. This was translated into a continued flattening in the yield curve for US Treasury Bonds (see **Figure 3.5**). The relative sluggishness in long-term yields reflected the high demand for US Treasury Bonds by US dollar-rich Asian central banks. In addition, there was the prevailing view that long-term inflation remained contained.

Emerging market bonds

During the March 2006 quarter, emerging market bonds continued to trade favourably in the international capital market. The average yields on these bonds[12] fell by 36.0 basis points to 6.7 per cent (see **Figure 3.6**).

[10] The benchmark interest rate used by the ECB is the minimum bid rate on its main refinancing operation, a regular open market operation executed by the Euro system.
[11] The LIBOR is the rate of interest at which banks borrow funds from each other in the London interbank market. It is the primary benchmark for short-term interest rates globally.
[12] Measured by the JP Morgan Emerging Market Bond Index (EMBI+).

Figure 3.6
Global Bond Yields
Dec 04 to Mar 06



Consequently, there was a narrowing of spreads by 12 basis points to 2.4 per cent over the quarter between yields on emerging market bonds and US Treasuries. Notably, yields on Jamaican global bonds[13] also declined by 61.0 basis points to 7.8 per cent during the quarter. Buoyant international liquidity contributed to the high demand and hence declining yields on these bonds.

International Trade Developments[14]

On 8 March 2006, the GOJ reduced the duty on imported cement by 25.8 percentage points, resulting in the tariff being adjusted to the CARICOM Common External Tariff (CET) rate of 15.0 per cent[15]. This adjustment, intended to be in effect for one year, was designed to address the growing demand of the domestic construction industry in a context of a shortage in domestic supply.

The Trade Board projects a shortfall within the industry for the period March 2006 to February 2007 of 300,000 metric tonnes. The importation of this amount of cement in the context of the waiver will cause imports to rise by approximately US$29.0 million for the afore-mentioned period. Since the implementation of the waiver, approximately 85,000 metric tonnes of cement was sourced from Venezuela, Cuba and Barbados. In addition, during March, the Ministry of Finance and Planning issued local cement importers with waivers and commitment letters to import approximately 178,000 metric tonnes of cement.

[13] A composite index of the average yield on Jamaica's US$ sovereign bonds is calculated as a weighted average of the yield to maturity on the bonds based on their outstanding par values.

[14] See the website of the Ministry of Commerce, Science and Technology (with Energy), www.mct.gov.jm/cement_duty.htm

[15] The original duty had been first applied in early 2004, on the recommendation of the Anti-Dumping and Subsidies Commission, which had found that imported cement was threatening the domestic industry.

4. Inflation

Headline inflation for the March 2006 quarter was 0.1 per cent. This outturn was the lowest quarterly outturn in three years. Inflation for FY2005/06 was 11.4 per cent, 1.8 percentage points below the rate recorded in FY2004/05 and 5.4 percentage points lower than the level of inflation in FY2003/04. Core inflation fell below 1.0 per cent in the quarter, which brought underlying inflation to 5.0 per cent in FY2005/06 relative to 5.2 per cent for the previous fiscal year.

Figure 4.1
Quarterly Inflation Rate
(5-yr Average: FY2000/01-FY2004/05 & FY2005/06 Comparison)

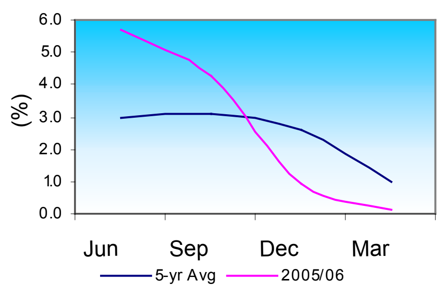


Figure 4.2
Inflation Rate
(12 Month Pt-to-Pt & Quarterly Comparison)

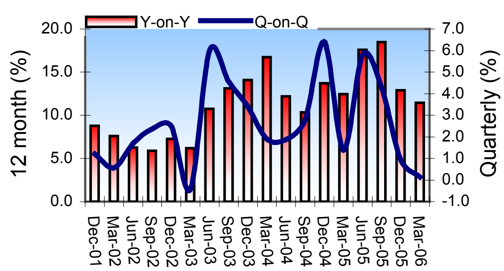
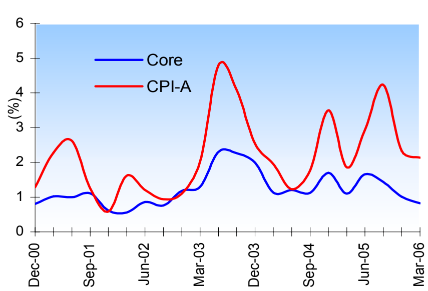


Figure 4.3
Core Inflation per Quarter



The All Jamaica Consumer Price Index (CPI) increased by 0.1 per cent in the review quarter. This was significantly lower than the seasonal average increase of 1.0 per cent recorded in the March quarters for the last 5 years (see **Figure 4.1**). The deceleration in inflation during the quarter reflected the impact of reversals in domestic agricultural commodity prices, notwithstanding strong impulses from increased prices of imported commodities.

Inflation for the fiscal year was 11.4 per cent, 1.8 percentage points below the outturn for FY2004/05, but marginally above the 9.0 - 10.0 per cent target range of the Intensified Surveillance Programme (ISP). The mean annual inflation rate was 15.1 per cent, 2.3 percentage points higher than that recorded for FY2004/05. However, the 12-month point-to-point rate has fallen steadily from 19.0 per cent in September to 12.9 per cent at December and 11.4 per cent in March.

Monetary Policy and Inflation

Core inflation, as measured by the change in the trimmed mean index, slowed to 0.8 per cent for the review quarter, relative to 1.0 per cent for the previous quarter and 1.1 per cent for the corresponding quarter of FY2004/05. For the review quarter, core inflation was below the average of 1.1 per cent for the previous five March quarters. Monthly core inflation was stable at approximately 0.3 per cent in each month of the quarter.

The slowdown in core inflation in the review quarter reflected the conservative monetary policy stance of the Central Bank since the September 2005 quarter. This monetary stance was reflected in a lower base money growth of 18.7 per cent over the first three quarters of FY2005/06

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

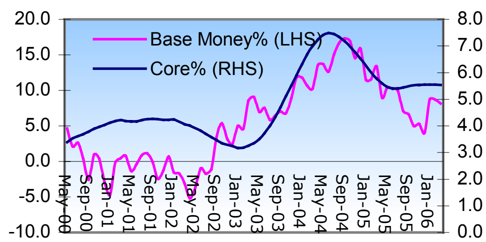
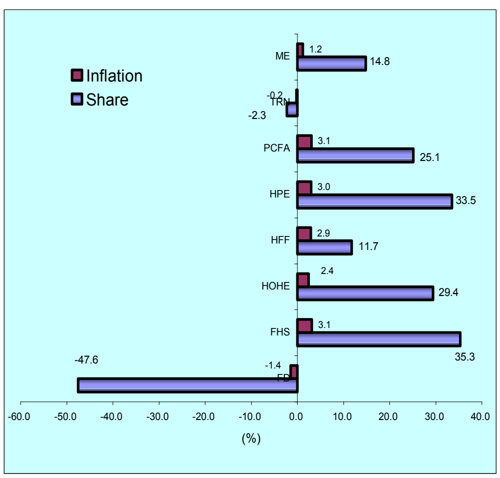
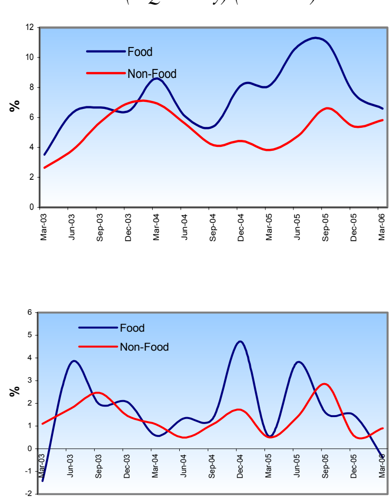


Figure 4.5
Inflation by Group



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

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



relative to 24.5 per cent for the corresponding period in the FY2004/05. The Bank adopted a cautious approach in light of the possible effects of higher international commodity prices and exchange rate instability on domestic inflation and inflation expectations. The impact of these factors was observed in the CPI excluding agriculture (CPI-A) index which, for the fiscal year, increased by 12.1 per cent relative to 8.6 per cent in the prior fiscal period.

For the FY2005/06, the core index increased by 5.0 per cent, relative to 5.2 per cent in the previous fiscal period. For the previous 5-year period, the average 12-month core inflation rate has been 5.1 per cent, ranging from a high of 8.2 per cent to a low of 2.8 per cent.

Non-Monetary Factors

The main non-monetary factors that affected inflation related to the lagged pass through of higher energy cost to prices of meat, baked products, utilities and household and automotive fuels. The impulses from these factors were partially offset by declines in the prices of the heavily weighted agricultural commodities.

Supply Conditions

One of the main factors influencing the favourable outturn in the CPI during the period was the continued recovery in agricultural supply. This influenced sharp declines in the prices of vegetables, fruits and starchy foods, which offset the rising prices of meat and baked products. The price declines were as a consequence of buoyant supply arising from recovery efforts after a prolonged period of dislocation associated with tropical storm conditions in July and the flood rains in October. Consequently, during the March quarter, there were contractions of 12.0 per cent and 13.9 per cent in Starchy Foods and Vegetables & Fruits, respectively, which led to a 1.4 per cent decline in Food & Drink.

The Bank's Food Index declined by 0.4 per cent in the March quarter relative to an increase of 1.5 per cent in the December quarter reflective of the sharp countervailing impulses from agriculture. However, the non-food index rose by 0.9 per cent relative to 0.6 per cent in the December quarter. Consistent with these developments, food price inflation, on an annual basis was 6.6 per cent at the end of March relative to 7.6 per cent at the end of December. Conversely, annual non-***food inflation was 5.8***

Figure 4.7
3 Month Pt-to-Pt Changes in the Durables Index & the Exchange Rate

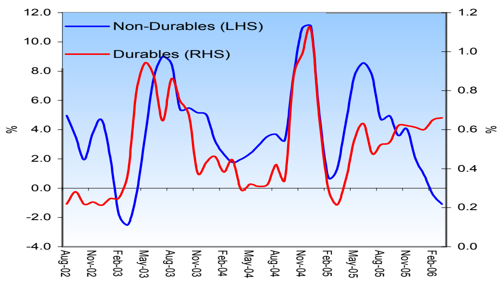


Figure 4.8
3 Mth changes in Durables and Non-Durables Indices

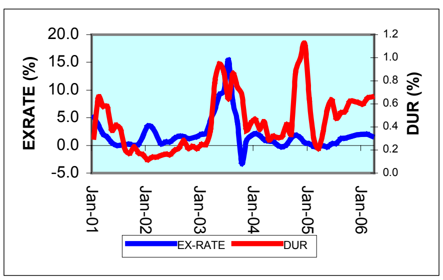
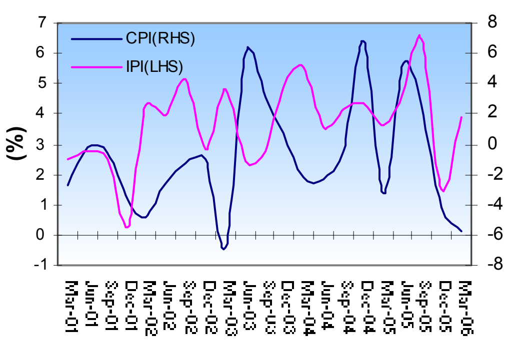


Figure 4.9
Import Price Index and Inflation



per cent relative to 5.4 per cent at the end of December (see **Figures 4.6a & b**).

Imported Inflation

The cost of imported goods, as measured by the Bank's import price index, rose by 1.3 per cent in the March quarter relative to a decline of 0.6 per cent in the December 2005 quarter (see **Figure 4.9**). This primarily reflected the rise in international oil prices (and an increase in the raw materials index) that led to heightened impact on the country's fuel import bill (see International Developments). The movements in the exchange rate would have affected some imported prices. This was reflected in the upward movement in the index of durable goods prices, which has a high import content, relative to the index of non-durable goods, which has been trending down over the comparable period (see **Figures 3.7, 3.8**).

The instability in the foreign exchange market in the December quarter continued in the first month of the March quarter and affected utility costs. Additionally, the Jamaica Public Service Company raised the fuel component of electric power sold to households largely as a result of international oil price movements. In particular, fuel charges increased 1.5 per cent relative to a decline of 3.9 per cent in the December quarter. This was compounded by an increase in the billing exchange rate, which depreciated by 1.1 per cent during the March quarter. As a consequence, consumers' electricity bills increased 1.2 per cent over the quarter. There were also higher water charges during the quarter consequent on the importance of electricity in water distribution.

Component Contribution to Inflation

Fuels & Other Household Supplies, Healthcare & Personal Expenses and Housing & Other Housing Expenses accounted for the majority of the upward impetus to inflation in the review period (see **Figure 4.5**). The contribution of these groups reflected the impact of higher international commodity prices, exchange rate pass-through to durables, higher minimum wages and increased insurance rates. Countervailing impetus emanated from Food & Drink and Transportation.

Fuels & Other Household Supplies increased by 3.1 per cent for the quarter and contributed 35.3 per cent to overall inflation. This group was affected by both energy price movements as well as exchange rate depreciation on durables as Household Supplies includes items with high

Figure 3.10
Average WTI Crude price (US$) per barrel

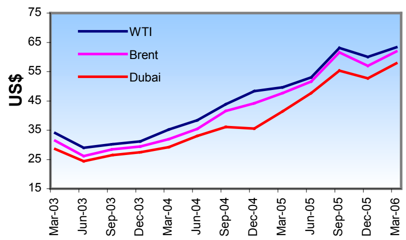
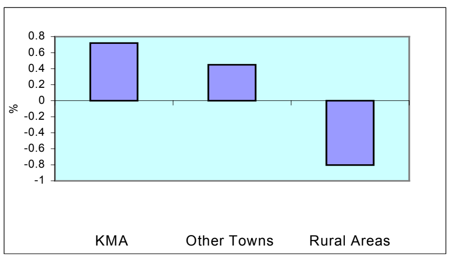


Figure 3.11
Geographical Distribution of Inflation



import content. The energy-related movements were manifested in higher prices for liquid petroleum gas (LPG) and kerosene.

Healthcare & Personal Expenses was mainly affected by the sharp increase in health insurance premiums and the cost of personal care products and services. These latter costs for personal care products and services were affected by exchange rate depreciation and rising energy prices, respectively. This group increased by 3.0 per cent and contributed 33.5 per cent to the quarter's inflation.

In addition to the impact of energy on utilities, Housing & Other Housing Expenses was affected by the 16.7 per cent minimum wage adjustment and an increase in cement prices that emanated from a shortfall in supply at the main supplier. This sub-index rose 2.4 per cent and accounted for 29.4 per cent of inflation in the quarter.

Food & Drink declined by 1.4 per cent providing significant offsetting impetus to the overall price level. This largely emanated from sharp price reversals for tomato, yam, cabbage and green bananas. These declines completely offset sharp movements in the bread and meat-related sub-groups.

The 0.2 per cent decline in Transportation principally reflected the impact of a more than 30.0 per cent fall in airfares. Despite higher fuel costs, the intense competition in the travel industry from new entrants has driven down the cost of travel to major destinations.

Regional Inflation

There were significant disparities in the inflation outturn across the three regions. While the indices of the Kingston Metropolitan Area (KMA) and Other Towns rose by 0.7 per cent and 0.4 per cent, respectively, the index of the Rural Areas fell by 0.8 per cent. This disparity was largely the result of the movements in Food & Drink. For the March quarter, this sub-category declined by 3.1 per cent in the Rural Areas, while the KMA and Other Towns had respective declines of 0.2 and 0.7 per cent. The disparity was influenced in part by more significant declines in the prices of agricultural products, which also have relatively greater weights in Rural Areas.

5. Economic Outlook and Monetary Policy Perspectives

Positive economic performance is expected for fiscal year 2006/07. The economic outlook for FY06/07 is for stronger growth, lower inflation and a continuation of stable financial markets. Growth in the economy is projected against the background of strong world growth, which should have a positive impact on the demand for Jamaica's exports. Inflation is expected to be in range of 9.0 per cent to 10.0 per cent for FY2006/07, in the absence of shocks that have influenced the outturn over the past two years. However, the threat of continuing increases in crude oil prices and the potential for adverse weather pose risks to the economy. In this context, monetary policy will continue to focus on reducing inflation. Declining inflation expectations and containment of public sector demand should provide the opportunity for continued lowering of domestic interest rates.

For the June 2006 quarter, growth is expected in both the goods and services sectors of the economy. Inflation is expected to be seasonally higher than in the March quarter and will be led primarily by recent increases in the price of crude oil. However, a relatively stable foreign exchange rate should mitigate inflationary impulses in the economy.

Table 5.1

Jamaica: Selected Economic Indicators

	Target for FY05/06	*Outturn for FY05/06*	*Projections for FY06/07*
Inflation (% change)	9.0 – 10.0	11.4	9.0 – 10.0
Base Money (% change)	14.0	4.7	12.2
NIR End Period (US$mn)	2076.1*	2078.1	2100.0
GDP (12-mth % chg.)	3.0 – 4.0	2.0 – 2.5	3.0 – 4.0

*Revised

The domestic economy is expected to reflect stronger growth in FY2006/07 relative to the performance of the previous year. This projection is made against the background of continued buoyancy in the international economy, stable domestic conditions and increased investments.

The global economy in 2006 is expected to expand by 4.9 per cent, which is just above the outturn for 2005 and 0.6 percentage point higher than what was expected in September 2005[16]. The expansion in the world economy is anticipated to be more broad-based. While the United States of America (USA) remains the main engine of growth, expansion in the Japanese economy has become more established and there are signs of a more sustained recovery in the Euro area. In addition, growth in most emerging and developing countries, particularly China, India, and Russia, is expected to remain strong. The anticipated increase in the world economy should serve to boost demand for Jamaica's exports, particularly from the mining, tourism and transportation sectors.

[16] *IMF World Economic Outlook, April 2006*

Table 5.2

International Prices of Selected Commodities*				
		2005	2006	%chge
Export Commodities				
Cocoa	c/kg	155.0	162.0	4.5
Coffee	c/kg	257.9	242.0	-6.2
Bananas	$/mt	575.0	565.7	-1.6
Sugar	c/kg	21.0	20.0	-4.8
Aluminum	$/mt	1865.0	1900.0	1.9
Import Commodities				
Coconut oil	$/mt	630.0	601.0	-4.6
Soybean oil	$/mt	540.0	524.0	-3.0
Maize	$/mt	100.0	98.0	-2.0
Rice (Thailand, 5%)	$/mt	285.0	275.0	-3.5
Soybeans	$/mt	275.0	255.0	-7.3
Sorghum	$/mt	97.0	94.0	-3.1
Wheat, US, HRW	$/mt	150.0	145.0	-3.3
Raw materials index		111.6	108.1	-3.1
Fertilizer index		134.1	131.7	-1.8

Source: World Bank Commodity Forecasts

Global economic activities could be affected by volatility in crude oil prices. Average oil prices as measured by the West Texas Intermediate prices are expected to increase by 22.0 per cent to an average of US$73.00 per barrel in FY2006/07 relative to the 32.9 per cent increase in FY2005/06. This outlook is primarily due to adverse supply concerns in the context of rising geopolitical concerns and fears about disruption in production.

With respect to Jamaica's terms of trade in non-oil commodities to the global economy, the outlook is mixed **(**see **Table 5.2**). Reductions in global prices are expected particularly for grains, fertilizers and other raw materials. The declines in the prices of grains will be influenced primarily by favourable weather conditions in USA and parts of Europe. This should lessen the impact of imported inflation on the domestic economy. However, the prices of most of Jamaica's export commodities are projected to decline.

In the domestic economy, growth is expected to be driven by expansion in agriculture, mining, construction, tourism and basic services. Economic activities should be sustained by the favourable trend in loans to the private sector, which is expected to continue given planned reduction in public demand. Further, the acceleration of major investment projects and relative stability in the financial markets will provide a fillip to the creation of additional businesses. Expansion in real sector activities should be enhanced by a relatively stable exchange rate, declining inflation and low interest rates. These developments, as well as continued fiscal prudence should sustain investor confidence. Against this background, growth for the fiscal year is projected in the range of 3.0 per cent to 4.0 per cent.

The inflation target for FY2006/07 is 9.0 per cent to 10.0 per cent. This projection is underpinned primarily by the expectation of continued stability in the foreign exchange market. The continued application of prudent policy measures to restrict money growth in line with expansion in real activities should ensure that inflationary pressures are subdued. With the significant recovery in agriculture and recent favorable weather conditions, it is anticipated that the seasonal summer inflationary impulses due to lower supplies of agricultural commodities should be lessened. The projection assumes that oil prices remain below the Bank's forecast.

Risks

Economic activities in the past two years have been beset by major exogenous shocks. The rising trend in international oil prices has been one of the most significant. The continuation of this trend could derail the inflation target and suppress level of economic activities. The commencement of the Petrocaribe Agreement, however, will serve to mitigate the impact on the foreign exchange market and hence inflation.

The future path of international interest rates is another source of uncertainty. Persistent global trade imbalances, signs of rising inflation and concerns about the sustainability of government finances in industrialized countries are all factors that could push rates higher and slow world growth. If interest rates go above projection, this could complicate the monetary policy stance.

Another concern relates to the forecasted active hurricane season. Recent experiences have shown that such developments not only disrupt production but precipitate large swings in inflation. Other risks relate to an unsettled industrial climate, the possibility of parliamentary elections and continued occurrences of crime.

Short Term Outlook-June 2006 Quarter

Real Sector

Positive performance in the June 2006 quarter is anticipated in both the goods and services sectors of the economy driven by continued recovery as well as investments in key areas of the economy. Favourable trends in loans to the private sector, improving investor confidence and relatively stable financial markets should serve to enhance growth.

While both are expected to grow, goods production is anticipated to expand faster than services. The main growth sectors are expected to be Agriculture, Mining, Miscellaneous and Basic Services. The significant performance of the agricultural sector over the previous two quarters is expected to continue in the June 2006 quarter. This projection is made relative to the significant decline in the sector in June 2005 quarter. The expansion should reflect mainly the increased output of banana, citrus and sugar cane production, as well as domestic agricultural crops. Following two quarters of decline, ***Mining*** is expected to resume its growth trend. Normalcy has been restored within the sector following work disruption brought about by industrial disputes. Projected production figures for the June quarter reflect increases of 9.1 per cent and 29.3 per cent for total bauxite and crude bauxite production, respectively.

Within basic services, ***Electricity & Water*** should be buoyed by increasing demand for these services brought about by the current expansionary trend in the economy as well as less severe drought conditions. ***Transportation*** should benefit primarily from continued buoyancy in the travel sector and the expected increase in the number of airlines traveling to Jamaica. Information on seaport activities has revealed noticeable growth over the past two quarter, a trend which is expected to continue in the June 2006 quarter. This expansion has been most evident in the area of transshipment. Additionally, the entry of another telecommunication company which is expected to provide high technology solutions will serve to enhance the ***Communications*** sector in particular and overall productivity.

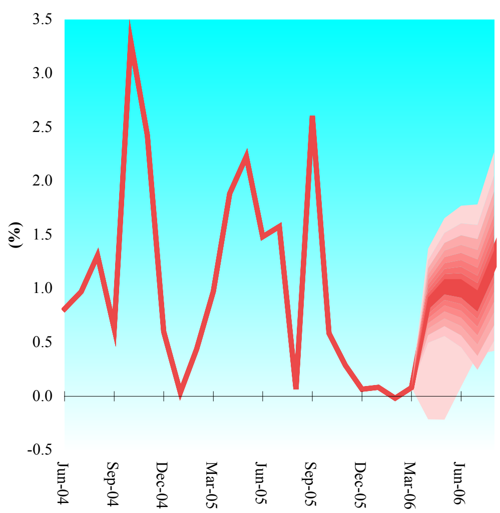
Miscellaneous Services, which is largely comprised of the tourism industry, is expected to record significant growth in the June 2006 quarter. The optimism for the tourism sector is underscored by increased arrivals anticipated in the quarter relative to the June 2005 quarter due to a shift in the timing of the Easter holidays and associated festivities. Increased airlift and additional capacity in the industry should continue to enhance the output of the sector. The absence of the problem experienced by the national airline in June 2005 and the entry of new carriers are expected to facilitate additional visitors.

Inflation

Inflation in the June 2006 quarter is anticipated to reflect a seasonal increase over the March quarter. The higher inflation will be driven primarily by increases in the international price for crude oil as well as, impulses arising from the continued higher prices for agricultural commodities. With respect to the impact of oil prices, inflation will be reflected in *Fuels, Transportation* and *Housing & Other Housing Expenses*. Second round price effects, though smaller, are anticipated for other consumer goods and services.

The anticipated rise in the prices of agricultural commodities is based on the seasonal declines in production as the summer months approach. However, the increases should be below those experienced in the June

Figure 5.1
Monthly Inflation Forecast



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

2005 quarter. Production in the agricultural sector was adversely affected by brush fires and severe drought in the June 2005 quarter. As such, the Starchy Foods and Vegetables & Fruits subgroup is anticipated to reflect an increase relative to the decline in both indices in the previous quarter.

Another inflationary impulse is anticipated from the *Meat, Poultry & Fish* sub-category. This index is expected to reflect the continued fallout in supplies of local beef as well as, the greater demand for fish. Additionally, recent upward movements in the prices of corn and soyabean over the March quarter will have an impact on the production cost of meats. The upturn in the prices of wheat and rice is also of concern and could reflect an expansion in the *Baked Products, Cereals & Breakfast Drinks* subgroup.

Given the above factors, headline inflation for the June 2006 quarter is expected to be in the range of **2.0 per cent** to **3.0 per cent**, significantly less than the 5.7 per cent realized in the corresponding quarter of the previous year. This projection reflects a continuation of the fall in the annual point-to-point measure of inflation over the June quarter. The outlook assumes continued relative stability in the exchange rate. In addition, core inflation is expected to continue its stable trend consistent with the Bank's conservative monetary policy stance.

Monetary Policy

Consistent with the targets outlined, the monetary programme for FY2006/07 envisages growth in base money of 12.2 per cent, relative to the 4.7 per cent recorded in the previous year. This target is consistent with the inflation target and growth projections. Given the strengthening in economic conditions anticipated, the Bank will reduce interest rates while being cognizant of the aforementioned risks.

For the June quarter, base money is expected to grow by 1.7 per cent. The Bank on 18 April removed the longer-term instruments from its offerings of open market instruments. This action was undertaken in an effort to improving the efficacy of monetary policy and move further in line with international practice. This is a first step in rationalizing the scope and sharpening the signals sent by open market operations. Additionally, the Bank has removed fully the special deposit requirement that was instituted in the March 2003 quarter.

Appendices

A. Fiscal Developments: January to March 2006

Provisional data for the March 2006 quarter indicate that Central Government operations resulted in a surplus of $8 419.2 million or 1.3 per cent of GDP, significantly below the targeted surplus of $15 470.3 million or 2.4 per cent of GDP (See **Table**). Similarly, the current surplus was 1.1 per cent of GDP relative to the target of 2.2 per cent, while the primary balance was 4.5 per cent of GDP relative to 5.4 per cent. The deviation relative to the target occurred in a context of higher than programmed expenditure as well as a slight shortfall in revenue. The outturn for the quarter brought the deficit for the fiscal year to $21 039.8 million or 3.2 per cent of GDP compared to the targeted zero balance. Total expenditure exceeded target by 14.8 per cent during the March 2006 quarter reflecting higher spending in all areas. Expenditure on programmes accounted for 39.8 per cent of the deviation in total expenditure and largely reflected higher housekeeping expenses, as well as the payment of pension arrears. A deviation of $1 916.0 million in capital expenditure accounted for 29.4 per cent of the variance in total expenditure, reflecting the undertaking of previously scheduled projects.

There was a shortfall in revenue during the review quarter of $827.6 million, reflecting lower than targeted tax revenue and grants, partly offset by strong capital and non-tax revenue flows. Tax revenue was 3.9 per cent below target, consequent on the underperformance of General Consumption Tax (GCT) and Special Consumption Tax (SCT). The deviation in grants reflected non-receipt of anticipated flows from the European Union (EU) during the quarter. Capital revenue was 79.9 per cent above budget as a result of the receipt of funds from the National Housing Trust in respect of the Education Transformation Project, due earlier in the quarter.

The outturn for fiscal year 2005/06 reflected a shortfall in revenue and grants by 8.6 per cent, as well as higher than budgeted expenditure by 1.2 per cent. The shortfall in revenue largely reflected the deviation in tax revenue in the last three quarters of the fiscal year when receipts from GCT and SCT were lower than expected. In this regard, GCT collections for the fiscal year were $11 417.1 million below budget, while SCT was $2 467.2 million below target.

With respect to expenditure the deviation from budget reflected higher spending on programmes and wages and salaries in the last quarter of the year. Notably, this was a reversal of the trend observed in the first three quarters of the fiscal year when there was marked containment in expenditure For fiscal year 2005/06, the primary balance ratio was 10.3 per cent, relative to the target of 13.5 per cent, primarily reflecting the underperformance in revenue. Concurrently, the current deficit was 2.2 per cent of GDP, compared to an anticipated current surplus of 1.5 per cent of GDP.

Given the deficit for the fiscal year, the levels of domestic and foreign financing were both above target. Government domestic financing relied mainly on variable rate instruments With respect to foreign financing, the Government raised US$550 million to fund its activities in the current fiscal year and an additional US$250 million in pre-financing for fiscal year 2006/07.

Fiscal Performance
Comparative Analysis
J$ Million

	Q4	Budget Q4	Variance	FY	Budget FY	Variance
Revenue and Grants	**58851.2**	**59390.8**	**-539.7**	**186684.2**	**204479.9**	**-17795.7**
Tax Revenue	49054.6	51045.9	-1991.3	162575.9	179516.2	-16940.4
Non-tax Revenue	3688.0	3107.7	580.3	11802.4	9930.6	1871.8
Bauxite Levy	750.7	743.3	7.4	3124.7	2996.6	128.1
Capital Revenue	5023.5	2792.3	2231.2	8464.1	7826.9	637.2
Grants	334.4	1701.6	-1367.3	717.2	4209.6	-3492.4
Expenditure	**50432.0**	**43920.6**	**6511.4**	**207724.1**	**204479.9**	**3244.2**
Recurrent Expenditure	46580.3	41984.9	4595.4	192250.0	187203.9	5046.1
Programmes	10091.4	7498.4	2593.0	40846.3	38237.8	2608.5
Wages & Salaries	15931.2	14755.9	1175.3	63108.2	61387.0	1721.2
Interest	20557.7	19730.6	827.1	88295.5	87579.1	716.4
Capital Expenditure	3851.7	1935.7	1916.0	15474.0	17276.0	-1802.0
Overall Balance	**8419.2**	**15470.2**	**-7051.0**	**-21039.9**	**0.0**	**-21039.9**
Memo						
Current Balance	**7247.4**	**14613.6**	**-7366.2**	**-14029.9**	**9449.1**	**-23479.0**
Primary Balance	**28976.9**	**35200.8**	**-6223.9**	**67255.7**	**87579.1**	**-20323.4**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q4 FY 2005/06	-1.29	1.11	4.45	3.16	-0.86
Q4 FY 2005/06 Budget	-2.38	2.24	5.41	3.03	-0.74
FY 2005/06	3.23	-2.16	10.33	13.56	-1.11
FY 2005/06 Budget	0.00	1.45	13.45	13.45	-1.00

Key
BR = Borrowing Requirement
CB= Current Balance = Current Revenue-Current Expenditure
PB= Primary Balance = Total Revenues-Total Expenditures less Interest Payments (IP)
IP= Interest Payments
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 below zero indicates need for major fiscal adjustment to cover interest on past obligations

Source: Ministry of Finance and Planning

B. MONETARY POLICY DEVELOPMENTS

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

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

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

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

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

LIST OF SUMMARY TABLES

C. Summary Tables

1

INFLATION RATES (%)

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

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
January - March 2006

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	**0.5563**	**-1.4**	**-47.6**
- Meals Away From Home	0.0741	1.1	12.7
- Meat Poultry & Fish	0.1613	3.7	97.0
- Dairy Products Oils & Fats	0.0668	2.4	25.7
- Baked Products Cereals &Breakfast Drinks	0.0864	1.9	27.0
- Starchy Foods	0.0525	-12.0	-102.4
- Vegetables & Fruits	0.0650	-13.9	-146.8
- Other Food & Beverages	0.0502	4.8	39.3
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**3.1**	**35.3**
- Household Supplies	0.0482	2.8	22.0
- Fuels	0.0253	3.2	13.3
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**2.4**	**29.4**
- Rental	0.0209	1.0	3.4
- Other Housing Expenses	0.0577	2.8	26.1
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**2.9**	**11.7**
- Furniture	0.0068	4.7	5.2
- Furnishings	0.0215	1.9	6.5
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**3.0**	**33.5**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**3.1**	**25.1**
- Clothing Materials	0.0055	2.4	2.1
- Readymade Clothing & Accessories	0.0242	3.3	13.1
- Footwear	0.0159	2.3	6.0
- Making & Repairs	0.0051	4.5	3.7
TRANSPORTATION	**0.0644**	**-0.2**	**-2.3**
MISCELLANEOUS EXPENSES	**0.0785**	**1.2**	**14.8**
ALL GROUPS	**1.0000**	**0.1**	**100.0**

2B

REGIONAL INFLATION Quarterly January – March 2006			
Groups and Sub-groups	**KMA (%)**	**Other Towns (%)**	**Rural Areas (%)**
FOOD & DRINK	**-0.2**	**-0.7**	**-3.1**
- Meals Away From Home	0.1	2.2	2.0
- Meat Poultry & Fish	3.3	4.2	3.8
- Dairy Products Oils & Fats	1.9	2.5	2.8
- Baked Products Cereals &Breakfast Drinks	1.6	2.3	2.1
- Starchy Foods	-8.8	-6.5	-15.2
- Vegetables & Fruits	-9.2	-19.2	-15.9
- Other Food & Beverages	6.0	4.5	3.8
FUELS & OTHER HOUSEHOLD SUPPLIES	**1.9**	**2.4**	**5.0**
- Household Supplies	3.0	2.0	3.1
- Fuels	1.3	2.6	6.2
HOUSING & OTHER HOUSING EXPENSES	**1.7**	**2.7**	**4.2**
- Rental	0.9	1.3	1.3
- Other Housing Expenses	2.1	2.8	4.5
HOUSEHOLD FURNISHINGS & FURNITURE	**4.1**	**2.4**	**2.1**
- Furniture	10.1	1.5	2.1
- Furnishings	1.1	2.9	2.1
HEALTHCARE & PERSONAL EXPENSES	**3.7**	**2.1**	**2.4**
PERSONAL CLOTHING FOOTWEAR & ACC.	**1.6**	**2.5**	**4.8**
- Clothing Materials	2.0	1.0	3.8
- Readymade Clothing & Accessories	1.8	2.5	5.1
- Footwear	1.7	2.7	2.7
- Making & Repairs	0.9	2.0	10.6
TRANSPORTATION	**-0.5**	**0.0**	**0.2**
MISCELLANEOUS EXPENSES	**1.4**	**0.8**	**1.1**
ALL GROUPS	**0.7**	**0.4**	**-0.8**

3

BANK OF JAMAICA OPERATING TARGETS

	Sept-04	Dec-04	Mar-05	Jun-05	Sept-05	Dec-05	Mar-06
Net International Reserves (US$)	**1 616.5**	**1 858.5**	**1 901.6**	**2 156.8**	**2 119.0**	**2 087.4**	**2 078.1**
Net International Reserves ($J)	**100 224.2**	**115 228.2**	**117 899.8**	**133 721.6**	**131 376.1**	**136 120.7**	**135 515.2**
- Assets	101 725.2	116 679.7	119 294.8	135 116.6	139 063.5	141 443.1	154 736.5
- Liabilities	- 1 501.0	-1 451.4	-1395.0	-1 395.0	-7 687.4	-5 322.4	-19 221.3
Net Domestic Assets	**-61 833.3**	**-70 172.6**	**-76 253.0**	**-93 641.6**	**-91 001.9**	**-86 703.0**	**-91 907.4**
-Net Claims on the Public Sector	97 291.3	91 476.2	96 076.3	99 507.6	103 491.4	96 607.0	99 001.8
- Net Credit to Banks	-14 713.0	-15 078.8	-12 629.7	-9 784.6	-10 289.3	-10 871.7	-10 906.7
- Open Market Operations	-127 629.3	-130 692.1	-143 854.8	-167 485.1	-168 108.2	-149 806.5	-157 357.6
- Other	-16 782.3	-15 877.9	-15 844.8	-15 879.5	-16 095.8	-22 631.8	-22 644.9
Monetary Base	**38 390.9**	**45 055.6**	**41 646.8**	**40 080.0**	**40 374.2**	**49 417.7**	**43 607.8**
- Currency Issue *	26 215.9	32 398.1	28 674.9	26 995.0	27 401.5	35 644.5	29 714.4
- Cash Reserve	12 042.0	12 316.2	12 696.2	12 957.2	12 937.6	13 125.8	13 685.2
- Current Account	133.0	341.3	275.7	127.8	35.1	647.4	208.2
% change Monetary Base (F-Y-T-D)	**6.1**	**24.5**	**15.1**	**-3.8**	**-3.1**	**18.7**	**4.7**

** Excludes BOJ's teller cash*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/2004						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December	55 258.0	67 724.6	141 539.8	211 468.2	182 029.6	251 723.8
March	52 605.9	62 309.4	139 480.6	209 583.2	179 769.4	249 872.0
2005/2006						
June [r]	52 942.5	62 310.9	142 111.3	212 032.6	185 090.2	255 011.5
September	53 089.8	63 212.3	143 430.0	216 480.9	188 253.9	261 304.7
December [p]	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

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

5

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

	Jun-04	Sep-04	Dec-04 r	Mar-05 r	Jun-05 r	Sep-05	Dec-05	Mar-06
M2J	**3 402.1**	**2 120.4**	**11 124.8**	**-2 059.2**	**2 630.8**	**1 318.8**	**11 818.0**	**-1 630.0**
Currency	524.6	1 041.0	4 483.3	-3 108.7	-574.0	1 119.6	5 549.5	-3 435.3
Demand Deposits	1 028.8	1 422.1	1 815.1	456.8	910.4	-972.3	3 933.5	-519.7
Savings Deposits	2 516.2	696.9	2 739.5	-105.1	1 579.0	111.6	3 505.2	296.3
Time Deposits	-667.5	-1 039.6	2 086.9	697.8	715.4	1 059.9	-1 170.2	2 028.8
OTHER DEPOSITS	**1 961.3**	**1 386.9**	**1 631.0**	**-201.1**	**2 690.0**	**1 844.9**	**465.5**	**3 897.3**
TOTAL (M3J)	**5 363.4**	**3 507.3**	**12 755.8**	**-2 260.3**	**5 320.8**	**3 163.7**	**12 283.4**	**2 267.4**
SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY								
N.I.R. of B.O.J.	**2 158.3**	**775.1**	**15 100.7**	**2 666.0**	**15 788.6**	**-2 277.0**	**-1 952.9**	**-605.5**
M&LTFL of B.O.J	**0.0**	**21.7**	**12.0**	**0.0**	**11.7**	**0.0**	**44.7**	**65.4**
Banking System Credit	**22 552.0**	**6 749.4**	**-10 580.7**	**913.5**	**18 620.4**	**5 566.3**	**-3 193.7**	**3 169.6**
Public Sector	21246.0	4 260.7	-11 009.8	-1 164.3	15 559.3	3 864.9	-5 333.0	-259.6
Private Sector	1 306.0	2 488.7	429.1	2 077.8	3 061.1	1 701.4	2 139.3	3 429.2
Open Market Operations	**-14 940.4**	**-4 407.2**	**-3 062.8**	**-13 162.8**	**-23 658.2**	**-595.1**	**18 301.7**	**-7 551.1**
Other	**-4 418.2**	**368.3**	**11 286.6**	**7 323.0**	**-5 441.7**	**469.5**	**-916.4**	**7 189.0**
TOTAL	**5 363.4**	**3 507.3**	**12 755.8**	**- 2 260.3**	**5 320.8**	**3 163.7**	**1 2 283.4**	**2 267.4**
Memo:								
Foreign Currency Deposits (Private Sector)	-890.1	4 257.6	633.6	210.1	-181.3	3 129.6	21.8	1 834.2
Foreign Currency Loans (Private Sector)	339.9	608.9	3 367.5	1 594.9	-2 901.0	3 389.6	3 754.3	-715.3

preliminary

r-revised

6A

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

	Fixed Deposits *		Savings Deposits (Average) r	Demand Loan 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	n.a.	n.a.	10.00

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

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	*6-month*	*9-month*	*12-month*
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		

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BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenor of Instruments

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

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
January – March 2006

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
3 Jan	9.625% US-Denominated Bond 2005	US$ 0.1	9.625
4 Jan	VR LRS 2001/2006	13.1	13.88
24 Jan	Inv. Deb. 2006 Ser. "Y"	3 150.1	18.625
27 Jan	Inv. Deb. 2006 Ser. "Ae"	2 746.5	22.125
16 Feb	Inv. Deb. 2006 Ser. "Ab"	3 020.5	28.5
21 Feb	VR LRS 2005/2006 J	400.0	14.28
28 Feb	FR US Indexed Bond 2006	US$83.8	11.625
7 Mar	FR Inv. Deb. 2006 Ser. "Ah"	1 650.8	17.0
17 Mar	FR Inv. Deb. 2006 Ser. "Am"	7 144.8	16.25
22 Mar	FR LRS 2006 AA	600.0	16.0
30 Mar	FR US-Denominated Local Bond 2006	US$35.0	6.5
31 Mar	VR LRS 2001/2006 Tr. L	325.0	13.15

Notes:

a/ Rate above Treasury is the relevant Treasury bill rate in effect at the beginning of the interest period.

b/ The withholding tax of 25% on interest income has been in effect since May 1, 2000.

c/ FR – Fixed Rate

d VR-Variable Rate

Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
January – March 2006

Issue Date	Stock Name	Features	Amount Raised J$M
12 -16 January	VR LRS 2008/2009H	Tenor of 33months. Coupon rate fixed at 13.34% for first three months. Thereafter, quarterly interest payments of 1.5 percentage points above the applicable three-month Treasury Bill rate	5 174.8
20 – 30 January	FR 13.875% Investment Debenture 2007 Series "Aw"	Tenor of 21 months. Interest rate fixed at 13.875%. Interest paid quarterly.	4 127.5
8 – 10 February	VR Investment Bond 2018/2019 Series "X"	Tenor of 13 years. Coupon rate fixed at 13.30% for first six months. Thereafter semi-annual interest payments of 1.625 percentage points above the applicable six-month Treasury Bill rate	2 929.7
16 – 17 February	FR Investment Debenture 2009 Series "Ax"	Tenor of 36 months. Coupon rate fixed at 13.80% for first six months. Thereafter, interest paid semi-annually	1 505.3
28 February	5.865% FR US$ Indexed Bond	Tenor of 18 months. Coupon rate fixed at 5.865% for first six months. Thereafter, semi-annual interest payments will be made until maturity	375.3
16 – 20 March	VR Investment Bond 2015/2016 Series "Y"	Tenor of 10 years. Coupon rate fixed at 13.24% for first six months. Thereafter, semi-annual interest payments of 1.50 percentage points above the applicable six-months weighted average Treasury bill rate.	9 091.0
29 March	FR LRS 2010 AF	Tenor of 4 years. Coupon rate fixed at 13.75%. Interest paid September 30 and March 31	500.0

Source: Debt Management Unit, Ministry of Finance & Planning

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other Goods	Total Exports
2002/2003	**99.9**	**615.6**	**64.5**	**17.7**	**74.4**	**227.8**	**213.7**	**1 313.6**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March	21.7	162.6	25.9	4.7	18.8	56.9	43.6	334.2
2003/2004 r	**92.3**	**726.0**	**82.9**	**18.6**	**65.7**	**250.9**	**231.0**	**1 467.4**
June	24.1	166.0	28.9	5.0	17.6	52.4	52.0	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	60.2	365.8
December	21.0	176.7	1.1	4.6	12.6	60.4	63.2	339.6
March	24.1	200.1	42.5	4.6	17.0	72.1	55.6	416.0
2004/2005 r	**82.1**	**825.0**	**87.0**	**8.2**	**74.2**	**272.6**	**216.3**	**1 565.4**
June	25.4	202.8	47.9	4.3	19.2	77.3	55.8	432.7
September	22.3	173.8	7.7	3.9	20.3	59.9	66.7	354.6
December	8.6	237.8	0.0	0.0	19.6	74.1	58.2	398.3
March r	25.8	210.6	31.4	0.0	15.1	61.3	35.6	379.8
2005/2006								
June r	22.6	245.2	41.5	2.1	17.2	61.9	47.1	437.6
September r	24.8	233.3	3.8	1.3	18.2	106.8	37.6	425.8
December	25.7	231.1	0.0	1.3	9.0	111.6	36.7	415.4

r-revised

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

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

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

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

	Jun-04 r	Sep-04 r	Dec-04	Mar-05 r	Jun-05 p	Sep-05 r	Dec-05 p
1. Current Account	**-57.0**	**-226.8**	**-191.2**	**-130.8**	**-274.0**	**-330.5**	**-239.2**
A. Goods Balance	**-394.0**	**-531.1**	**-597.5**	**-602.6**	**-623.5**	**-701.7**	**-659.3**
Exports (f.o.b.)	432.7	354.6	398.3	379.8	437.6	425.8	415.4
Imports (f.o.b.)	826.7	885.7	995.8	982.4	1 061.1	1 127.5	1 074.7
B. Services Balance	**160.1**	**100.7**	**108.7**	**225.1**	**155.0**	**123.7**	**166.2**
Transportation	-29.1	-48.6	-58.5	-29.5	-59.0	-71.7	-56.5
Travel	297.7	252.2	276.4	352.2	317.2	296.3	330.0
Other Services	-108.5	-102.9	-109.2	-97.6	-103.2	-100.9	-107.3
Goods & Services Balance	**-233.9**	**-430.4**	**-488.9**	**-377.5**	**-468.5**	**-578.0**	**-493.1**
C. Income	**-153.0**	**-131.5**	**-149.9**	**-151.6**	**-182.2**	**-146.1**	**-157.2**
Compensation of Employees	11.1	32.0	36.6	6.7	9.8	33.6	31.1
Investment Income	-164.1	-163.5	-186.5	-158.3	-192.0	-179.7	-188.3
D. Current Transfers	**329.9**	**335.1**	**447.5**	**398.3**	**376.7**	**393.6**	**411.1**
General Government	27.0	40.8	64.6	39.2	28.8	27.0	27.4
Other Sectors	302.9	294.3	382.9	359.1	347.9	366.6	383.7
2. Capital & Financial Account	**57.0**	**226.8**	**191.2**	**130.8**	**274.0**	**230.5**	**239.2**
A. Capital Account	**0.8**	**0.2**	**1.6**	**-3.0**	**-2.8**	**-3.1**	**-2.2**
Capital Transfers	0.8	0.2	1.6	-3.0	-2.8	-3.1	-2.2
General Government	3.5	3.4	3.5	0.1	0.2	0.0	0.0
Other Sectors	-2.7	-3.2	-1.9	-3.1	-3.0	-3.1	-2.2
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	**56.2**	**226.6**	**189.6**	**133.8**	**276.8**	**333.6**	**241.4**
Official Investment	73.9	32.9	118.9	-39.1	5.1	157.8	227.7
Private Investment (including net errors & omissions)	17.7	206.2	312.7	216.0	526.9	138.0	-17.9
Reserves	-35.4	-12.5	-242.0	-43.1	-255.2	37.8	31.6

r-revised

p-provisional

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

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Inflows	Other Current Transfers	Total
2002/2003	**293.0**	**622.8**	**0.8**	**252.6**	**1 169.2**	**105.4**	**1 274.6**
June	73.2	157.6	0.1	58.8	289.7	23.1	312.8
September	74.0	150.9	0.2	65.6	290.7	23.1	313.8
December	66.3	160.2	0.2	65.8	292.5	23.2	315.7
March	79.5	154.1	0.3	62.4	296.3	36.0	332.3
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**148.2**	**1 476.0**
June	58.8	170.1	0.3	63.2	292.4	36.0	328.4
September	74.5	169.4	0.3	71.6	315.8	36.0	351.8
December	100.8	183.4	0.3	80.4	364.9	36.0	400.9
March	96.6	174.9	0.3	82.9	354.7	40.2	394.9
2004/2005	**360.5**	**809.5**	**1.2**	**327.5**	**1 498.7**	**329.9**	**1 826.6**
June	96.9	185.6	0.3	83.3	366.1	40.2	406.3
September	70.3	186.4	0.3	84.8	341.8	48.3	390.1
December	97.4	216.5	0.3	88.9	403.1	134.1	537.2
March	95.9	221.0	0.3	70.5	387.7	107.3	495.0
2004/2006	**364.9**	**978.6**	**1.2**	**302.5**	**1 647.2**	**188.0**	**1 835.2**
June	74.7	241.6	0.3	77.3	393.9	47.0	440.9
September	90.8	245.3	0.3	75.2	411.6	47.0	458.6
December	96.7	254.0	0.3	77.1	428.1	47.0	475.1
March	102.7	237.7	0.3	72.9	413.6	47.0	460.6

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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
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1 782.3	31.2	20.6
September	1738.6	51.3	1 687.3	29.5	19.5
December	1643.1	46.1	1 597.0	27.9	18.4
March	1382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1901.6	27.5	18.8
2004/2005					
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

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

	US$	Can$	GB£
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52
September	62.89	53.61	110.02
December	64.58	54.95	110.40
March	65.50	56.14	112.94

15

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	*Volume Traded* (M.)	*Value of Stocks Traded (J$M.)*
2001/2002			
September	33,892.4	182.8	840.4
December	33,835.6	171.3	704.9
March	37,446.0	417.7	1, 19.5
2002/2003			
June	38,606.7	404.9	1 35.9
September	39,219.6	401.1	2 32.1
December	45,396.2	380.9	1 49.4
March	46,982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7
2004/2005			
June	94 718.4	665.7	9 395.7
September	99 819.8	391.1	4 920.4
December	112 655.5	532.0	7 144.9
March	111 931.2	920.4	18 029.3
2005/2006			
June	110 621.9	866 .8	14 136.8
September	103 332.6	387.8	4 189.6
December	104 510.4	323.1	4 391.0
March	86 896.1	366.5	4 513.8

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

16

PUBLIC SECTOR DOMESTIC SECURITIES Government of Jamaica Outstanding Stocks (J$MN)				
End Period	**Local Registered Stocks**	**Treasury Bills**	**Bonds**	**BOJ Open Market Operations Securities**
2002/2003				
June	219 738.5.	4 350.0	80 516.1.	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.5	3 750.0	210 300.0.	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	220 529.2	4 050.0	231 749.8	167 485.1
September	220 059.0	3 800.0	244 195.7	168 108.2
December	225 762.8	3 500.0	240 934.0	149 806.5
March	n.a	3 800.0	n.a	157 357.6

n.a: Not Available

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PRODUCTION OF SELECTED COMMODITIES (Quarterly Flows- 000', tonnes)				
	Bauxite	**Alumina**	**Sugar**	**Bananas***
2002/2003	**3 917.5**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5
2004/2005	**3 451.4**	**4 028.5**	**142.0**	**18.1**
June	1 071.2	1 046.4	60.0	9.9
September	907.1	866.7	3.7	8.2
December	398.5	1 062.6	3.6	0.0
March	1 074.6	1 052.8	74.7	0.0
2005/2006				
June	916.0	1 061.8	51.6	4.5
September	1 022.3	1 013.7	0.0	3.6
December	1 035.9	957.4	5.4	3.5
March	1 125.5	1 015.8	94.0	7.2

** Exports*

18

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES, AT CONSTANT (1996) PRICES
Dec 2003 - Dec 2005 (Seasonally Unadjusted)

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
Total Gross Domestic Product	1.81	2.29	2.58	-0.28	-0.88	0.08	0.38	2.92	2.44
Agriculture, Forestry & Fishing	10.44	1.30	0.51	-8.84	-30.06	-26.10	-16.45	0.84	27.88
Export Agriculture	4.56	19.84	8.68	-0.98	-68.33	-51.27	-40.07	-57.75	116.16
Domestic Agriculture, Livestock, Forestry & Fishing	11.60	-4.03	-1.55	-9.83	-22.99	-17.07	-9.86	8.95	21.17
Mining & Quarrying	4.10	10.20	7.87	-7.79	0.07	0.84	0.16	15.84	-3.94
Manufacturing	-2.01	5.05	6.84	-0.40	-0.02	-2.87	0.87	1.87	-4.15
Food, Beverages & Tobacco	-4.99	6.10	5.63	0.97	3.65	-2.67	1.01	-3.22	-10.34
Other Manufacturing	1.01	3.66	8.60	-2.02	-3.50	-3.13	0.68	8.07	2.16
Electricity & Water	2.80	3.56	3.10	-6.45	-0.23	0.44	1.74	10.24	4.46
Construction & Installation	0.18	2.98	0.79	6.03	9.49	11.38	9.43	9.18	-0.60
Distributive Trade	1.52	1.47	1.19	1.80	0.90	1.77	1.15	0.71	0.86
Transport, Storage & Communication	1.40	1.80	3.57	-0.79	-1.06	2.23	-0.44	0.59	2.61
Finance & Insurance Services	0.55	-1.05	-2.59	-0.20	1.02	-0.20	-0.01	0.06	1.90
Real Estate & Business Services	0.90	2.41	1.92	2.54	1.58	1.59	2.03	1.97	1.79
Producers of Government Services	0.84	0.10	0.25	0.10	0.47	0.63	0.36	0.42	0.13
Miscellaneous Services Household and Private Non-Profit Institutions	5.74	5.37	8.68	1.91	0.08	5.56	-0.72	-2.45	9.67
Hotels, Restaurants & Clubs	6.31	6.17	10.65	1.66	-0.65	6.81	-1.42	-4.08	13.00
Less Imputed Bank Service Charge	1.02	8.22	6.58	2.24	3.52	2.08	-1.10	-3.74	-3.09

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
Assets	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**	**259 287.8**
Foreign	97 232.2	99 458.8	101 367.1	113 727.7	118 206.1	134 085.9	140 935.2	139 675.7	154 986.1
Current Account & Foreign Currency Balances	6 881.8	9 162.7	9 824.6	12 036.4	14 005.1	16 263.7	17 681.6	14 090.9	8 942.3
Time Deposits & Securities	84 931.4	84 922.5	86 121.4	96 047.5	98 606.1	108 978.7	120 550.1	122 805.6	138 634.6
Holdings of Special Drawing Rights	4.8	23.8	6.0	4.4	10.5	2.6	25.2	0.4	8.8
Other	5 414.2	5 349.8	5 415.1	5 639.4	5 584.4	8 840.9	2 678.3	2 778.8	7 400.4
Local	89 579.3	91 559.6	95 521.4	96 891.3	104 193.6	106 106.5	107 991.2	100 660.5	104 301.7
Public Sector Securities	77 836.0	76 989.0	85 125.6	85 131.1	85 139.9	85 125.9	90 034.8	81 357.5	79 358.9
Other Assets	11 743.3	14 570.6	10 395.8	11 760.2	19 053.7	20 980.6	17 956.4	19 303.0	24 942.8
Liabilities	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**	**259 287.8**
Foreign	459.8	427.0	401.4	424.3	370.7	395.2	342.2	346.6	361.7
Local	186 351.7	190 591.4	196 487.1	210 194.7	222 028.9	239 797.2	248 584.2	239 989.8	258 926.1
Currency in Circulation	24 978.0	24 634.4	26 261.3	32 438.3	28 711.7	27 049.7	27 445.9	35 682.7	29 747.7
Deposits	146 088.2	155 259.4	159 435.8	165 535.6	179 817.5	201 790.1	207259.0	187 435.9	210 909.4
Bankers	26 197.7	26 499.4	28 278.6	29 186.6	27 086.5	24 396.5	24 819.5	26 226.8	26 442.0
Government	5 045.7	3 098.7	656.5	3 482.6	4 739.6	6 774.8	4 637.5	3 308.4	6 557.1
Open Market Operations	108 281.7	123 222.1	127 629.3	130 692.1	143 854.8	167 485.1	168 108.2	149 806.5	157 357.6
Other	6 563.1	2 439.2	2 871.4	2 174.3	4 136.6	3 133.7	9 693.8	8 094.2	20 552.7
Allocation of Special Drawing Rights	3 203.0	3 573.6	3 573.6	3 573.6	3 573.6	3 792.7	3 792.6	3 792.7	3 792.7
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	1 270.4	2 311.1	2 283.6	2 285.9	2 282.3	2 983.3	2 961.6	2 866.2	2 813.1
Other Liabilities	10 788.1	4 788.9	4 908.8	6 337.3	7 619.9	4 157.4	7 101.1	10 188.1	11 639.2

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05[r]	Dec-05[r]	Mar-06[p]
Assets	**331 710.5**	**327 721.8**	**341 427.1**	**344 378.6**	**343 452.4**	**346 352.9**	**356 575.5**	**367 078.0**	**385 759.5**
Cash	4 335.8	3 478.0	4 055.5	5 754.4	5 139.9	4 034.0	3 320.8	6 014.4	3 519.6
Balances with BOJ	50 545.4	53 281.4	52 877.8	55 896.7	59 776.1	61 415.5	62 486.9	57 747.9	66 793.0
Foreign Assets	62 394.6	61 318.4	71 803.7	73 289.8	67 327.2	61 079.6	71 328.1	75 443.9	83 846.4
Loans & Advances	102 504.2	106 169.9	108 989.0	113 368.8	118 444.9	125 513.2	124 842.3	132 095.3	131 963.6
Private Sector	75 699.2	77451.2	80 687.3	83 558.3	88 548.4	88 829.5	93 714.5	99 544.2	102 911.4
Public Sector	26 805.0	28 718.7	28 301.7	29 810.5	29 896.5	36 683.7	31 127.8	32 551.1	29 052.2
Public Sector Securities	66 686.3	65 707.7	62 695.7	56 455.4	52 434.0	57 644.9	56 515.4	56 118.0	56 144.6
Cheques in the Process of Collection	6 310.9	2 658.7	5 381.2	4 040.6	6 330.5	3 484.2	4 860.9	3 472.3	7 331.1
Other Assets	38 933.3	35 107.7	35 624.2	35 572.9	33 999.8	33 181.5	33 221.1	36 186.2	36 161.2
Liabilities	**331 710.5**	**327 721.8**	**341 427.1**	**344 378.6**	**343 452.4**	**346 352.9**	**356 575.5**	**367 078.0**	**385 759.5**
		214 596.2	223 188.9	228 190.5	234 117.2	233 407.8	240 794.3	246 264.9	255 315.4
Deposits	*216 777.3*	132 670.0	135 475.1	139 515.4 88	145 325.4	143 720.0	144 734.2	148 895.3	157 303.3
Local Currency	134 730.5	81 926.2	87 713.8	675.1	88 791.9	89 687.8	96 060.1	97 369.6	98 012.1
Foreign Currency	82 046.8								
Foreign Liabilities	15 860.8	18 655.6	22 932.1	26 374.9	28 856.4	31 241.4	30 496.4	35 453.1	41 797.7
Discounts & Advances from BOJ	276.7	1 607.3	199.6	229.9	117.5	144.1	361.6	234.5	174.6
Loans/Advances from Other Institutions	7 741.2	7 805.5	7 806.5	7 762.3	5 214.4	5 042.9	5 059.6	5 095.7	4 896.5
Cheques in the Process of Payment	3 279.7	2 218.9	3 172.3	2 498.5	3 056.4	2 828.2	2 616.4	2 789.5	3 450.9
Other Liabilities	87 774.8	82 838.3	84 127.7	79 322.5	72 090.5	73 688.9	77 247.2	77 240.3	80 124.4

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

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

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

2

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

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

3

PRIME LENDING RATES
(End- of-Period)

	EURO-ZONE	UNITED STATES			UNITED KINGDOM
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Repo rate
2002/2003					
June	3.25	1.75	1.25	4.75	4.00
September	3.25	1.75	1.25	4.75	4.00
December	2.75	1.25	0.75	4.25	4. 00
March	2.50	1.25	2.25	4.25	3.75
2003/2004					
June	2.00	1.00	2.00	4.00	3.75
September	2.00	1.00	2.00	4.00	3.50
December	2.00	1.00	2.00	4.00	3.75
March	2.00	1.00	2.00	4.00	4.00
2004/2005					
June	2.00	1.25	2.01	4.00	4.50
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75
March	2.00	2.75	3.58	5.50	4.75
2005/2006					
June	2.00	3.25	4.01	6.00	4.75
September	2.00	3.75	4.59	6.75	4.50
December	2.25	4.25	5.15	7.25	4.50
March	2.50	4.75	5.53	7.75	4.50

4A

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

	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
US$ vs. Sterling	0.5517	0.5528	0.5188	0.5248	0.5502	0.5653	0.5818	0.5704
US$ vs. Canadian $	1.3404	1.2417	1.2191	1.2161	1.2402	1.1606	1.1656	1.1547
US$ vs. Yen	109.38	110.20	103.90	105.23	108.75	113.34	117.88	117.28
US$ vs. Euro	0.8210	0.8054	0.7472	0.7580	0.8227	0.8294	0.8445	0.8315

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(March 2006)

	GBP	CAN$	US$	Yen	Euro
GBP	1.000	2.018	1.744	204.545	1.450
CAN$	0.495	1.000	0.864	101.342	0.718
US$	0.573	1.157	1.000	117.285	0.831
Yen	0.005	1.010	0.009	100.000	0.007
Euro	0.690	1.392	1.203	141.066	1.000

4C

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

	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
Sterling vs. US$	1.8090	1.9278	1.9058	1.8177	1.7691	1.7168	1.7440
Sterling vs. Canadian $	2.2853	2.3502	2.3177	2.2543	2.0532	2.0054	2.0185
Sterling vs. Yen	197.50	200.29	200.52	197.67	200.51	202.63	204.54
Sterling vs. Euro 1/	1.4875	1.4404	1.4445	1.4954	1.467	1.4554	1.4501

5A

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

	Dec-04	Mar-05	Jun-05	Sept-05	Dec-05	Mar-06
(Cash)	849.55	1982.40	1731.30	1857.00	2247.50	2429.12
onth	851.55	1962.50	1748.18	1877.00	2236.50	2458.15

5B

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
Wheat **(US$/mt)**	151	153.9	151.0	141.9	159.7	164.44	174.40
Coffee (USc/kg arabica brand)	177.4	228.82	297.1	267.4	219.3	233.18	250.6

5C

MAJOR STOCK MARKET INDICES
(End- of-Period)

	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
TOKYO							
Nikkei Index	10823.57	11488.76	11668.95	11584.01	13574.3	16111.43	17059.66
NEW YORK							
Dow Jones Industrials	10080.27	10783.01	10525.26	10274.97	10568.7	10717.50	11150.30
S & P Composite	1114.58	1211.92	1183	1191.33	1228.81	1248.29	1299.72
LONDON							
Financial Times SE 100	4570.8	4814.3	4894.4	5113.2	5477.7	5618.8	5964.6
FRANKFURT							
Dax Index	4256.08	4348.77	4586.28	4348.77	5044.12	5408.26	8669.99
ZURICH							
SMI Index	5693.2	5929.7	6253.08	5929.7	6898.88	7583.93	8023.30

6

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

	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
UAE's Dubai Light	35.48	34.26	45.58	50.97	56.54	56.75	57.65
North Sea Brent	43.38	39.64	53.08	54.31	61.88	53.13	62.25
West Texas Intermediate	37.05	45.93	43.23	56.39	66.25	59.41	62.89

Glossary

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

Base Money: The sum of notes and coins held by the public and the cash reserves of commercial banks (including both their holding of cash and their deposits at the central bank). The monetary base is the operating target used in the BOJ monetary policy framework and can be controlled through open market operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Money Supply**:** This is the stock of instruments or assets formally designated as money in a particular economy. There are alternative measures of money supply both within and between countries. In Jamaica, the measurements of money that are calculated and published are:
M1: Notes and coins in circulation + Demand Deposits
M2: M1+ Time and savings deposits
M3: M2 + Other Deposits.
A 'J' indicates that the components are Jamaican dollar liabilities only and an '*' indicates that the components also include foreign currency liabilities of the banking system.

Monetary Base**: See *Base Money***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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