Bank of Jamaica

Quarterly Monetary

Policy Report

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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 an update on the Jamaica Labour Market, as well as a discussion on the Special (Upper Income) consumer price index. The report also provides a brief summary of the IMF's review of the economy over the period April-July 2006.

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

Encouraged by positive trends in key macroeconomic indicators and a favourable economic outlook, the Bank of Jamaica (BOJ) eased its monetary policy stance on two occasions in the September 2006 quarter. The decision to reduce interest rates was taken in a context of continued moderation in inflation, extended stability in the foreign exchange market, strong net international reserves (NIR) and continued fiscal consolidation. These factors, coupled with robust GDP growth and a very stable outlook for core inflation, augurs well for the achievement of the target of single digit inflation. The halt in monetary policy tightening in the USA in August added further support to the Bank's view that stable conditions in financial markets in the near term should continue to prevail.

For the September quarter, headline inflation further moderated to 2.4 per cent, from 2.8 per cent for the preceding quarter and compared favourably with inflation of 4.3 per cent for the September 2005 quarter. The 12-month point-to-point inflation declined to 6.5 per cent at end September 2006 from 19.0 per cent at end September 2005 and was the lowest point- to-point outturn in three years. The major factors underpinning the lower inflation were stability in the exchange rate, moderate movements in agricultural prices and low underlying inflation.

Core or underlying inflation for the September quarter was estimated at 1.1 per cent comparing favourably with 1.4 per cent for the corresponding quarter of FY2005/06. For fiscal year to date (FYTD) 2006/07, core inflation was estimated at 2.0 per cent relative to 3.1 per cent for the similar period in 2005/06. The positive trend in core inflation was consistent with the conservative monetary policy stance of the Central Bank over the period September 2005 to May 2006.

For the review quarter, the monetary base expanded by 5.3 per cent, 2.0 percentage points above the programme target. This followed the slower than targeted base money growth in the June quarter and brought growth for the first half of the fiscal year to

2.4 per cent above programme. This faster than programmed growth in base money was not replicated in measures of money supply as M3J growth for the first six-months of FY2006/07 was 5.9 per cent which fell within programme expectations. The expansionary impetus from strong foreign exchange inflows were mainly sterilized by open market operations and an increase in Government deposits in the BOJ.

At the end of September 2006, the NIR amounted to US$2 342.0 million, exceeding the programme target by US$264.2 million. Gross foreign reserves at end September was equivalent to 18.8 weeks of goods and services imports, well above the international benchmark of 12 weeks. The build-up in reserves was facilitated by buoyant receipts from tourism and remittances, as well as strong net private capital flows. These inflows contributed to the protracted stability in the foreign exchange market, further underpinning the investor confidence that has grown with the improvement in the macroeconomic fundamentals. The favourable views of investor's outlook reflected in a faster growth in Jamaica Dollar deposits vis-à-vis foreign currency deposits during the review quarter. Against this background, the selling rate of the US dollar depreciated by a mere 0.03 per cent for the quarter. This brought the level of depreciation to 0.8 per cent for the first half of the fiscal year, in contrast to 2.1 per cent in the first six months of FY2005/06.

The favourable domestic environment, coupled with buoyant international liquidity and the pause in US monetary policy tightening also contributed to renewed interest in emerging market bonds, including the GOJ sovereign bonds. This increased demand was reflected in a significant decline in the yields on the GOJ bonds by 54 basis points to 7.8 per cent at the end of the quarter, while the spread relative to the benchmark 10-year US treasury bonds was the lowest in over six years. The positive trends in the domestic economy also engendered moderate improvement in the performance of the Jamaican stock market. These factors, as well as indications of restructuring and planned expansion by a number of listed companies contributed to a 1.3 per cent increase in the

Main Jamaica Stock Exchange (JSE) Index in the quarter, following a 2.1 per cent fall in the June 2006 quarter.

For the economy as a whole, there was a general increase in real sector activities in the September 2006 quarter. Real GDP grew in line with the trend growth of 2.7 per cent recorded since the September 2005 quarter. This expansion was supported by heightened investment financed by strong FDI flows and an increase in banking system credit. The primary areas of growth were *Miscellaneous Services, Transport, Storage & Communication* and *Agriculture*. The performance of *Miscellaneous Services* reflected robust growth in the tourism sector while, strong growth in *Transport Storage & Communication* was driven by increased air and sea cargo movements, as well as ship calls. *Construction & Installation* activities remained flat in the quarter, given the extended shortage of cement which resulted in a delay of some projects. *Manufacturing* experienced a decline for the fourth consecutive quarter in a context of the closure of the tobacco factory, as well as reduction in cement production.

In a context where all the performance benchmarks under the IMF Intensified Surveillance Programme (ISP) were comfortably achieved for the first half of the fiscal year, the outlook for the December quarter and the remainder of the fiscal year is very positive**.** The growth momentum, particularly in tourism, mining and distribution should be maintained given the favourable domestic environment and moderate global economic growth. Growth is expected to be stronger in the second half of FY2006/07.

The impulses to inflation are expected to be moderate in the December quarter in a context of a continuing decline in crude oil prices, an increase in the supply of some domestic agricultural commodities and continued exchange rate stability. The main non-monetary impulses are likely to emanate from some imported commodities and the seasonal demand for some goods and Services.

Core inflation should average 1.0 per cent for the quarter despite the higher than programmed increase in base money in the previous quarter. The monetary base is expected to increase by 19.1 per cent in the December quarter consistent with the seasonal increase in the demand for currency. This projection for base money growth is in line with the targets to deliver single digit inflation for the fiscal year.

The foreign exchange market should continue to benefit from strong receipts from tourism with the commencement of the winter season in December. Remittances are also expected to remain buoyant and remain on trend. These flows continue to be unaffected by economic cycles in the main source countries. A tempering in net private capital inflows relative to the September 2006 quarter is anticipated, but this should not affect stability in the foreign exchange market. Accordingly, the level of the NIR should remain adequate to counter any volatility in the market and preserve investor confidence.

The Central Bank recognizes that there are risks to its optimistic outlook including a reversal in oil price trends or investor sentiment occasioned by a shift in the direction of US policy. Notwithstanding these risks, the Bank believes that the opportunity for continued relaxation of its monetary policy stance should materialise in the December quarter.

Included in this issue of the Bank's Quarterly Monetary Policy Report are three boxes, intended to provide additional insight into some of the issues discussed. Box 1 entitled, Labour Market Update - June 2006 provides a brief summary of the latest labour market indicators for Jamaica, focusing on employment and productivity. It is noted that the unemployment rate fell when compared to the June 2005 quarter, but for the half-year period, was relatively stable compared to the similar period last year. The job-seeking rate declined at June 2006, relative to June 2005. Labour productivity, measured as real GDP per worker, improved marginally in the June 2006 quarter when compared to the 2005 period.

In response to frequently asked questions regarding the impact of inflationary impulses on differing income levels, Box 2 provides information on the Special (Upper income) Consumer Price Index (UI-CPI) compiled by the Statistical Institute of Jamaica. It provides a comparison of the respective weights and composition of the indices. Whereas *Food & Drink* accounted for the largest weight for both income groups, the proportion of food in total consumption was lower for the UI-CPI. The findings are consistent with standard economic theory which suggests that at higher levels of income, the propensity to consume "normal" goods is lower. The data also revealed that for the fiscal year to August 2006, the UI-CPI was running ahead of the CPI.

Box 3 entitled Jamaica: Interim Staff Report under the ISP – July 2006, provides a brief summary of the IMF's review of the economy over the period April-July 2006. The IMF acknowledged that the economy was making a gradual recovery from the weather related shocks that occurred since late 2004. They also agreed that progress was being made in reducing the high debt to GDP ratios, albeit slower than anticipated, due in part to higher than projected fiscal deficits, as well as slower than desired economic growth. The report notes that discussions between GOJ officials and the IMF staff had focused on the pace of fiscal consolidation, with the IMF pointing to consideration of further revenue and expenditure measures. The IMF noted that the achievement of the budget objective hinged on the Government's tax administration efforts and suggested that structural reforms would remain key to guarding against erosion by off-budget entities of the gains made in the budget.

Monetary Policy and Financial Markets

BOJ reduced interest rates on two occasions in September

Table 1.1

Selected Economic Indicators	Projections for Sep'06 Quarter	Outturn for Sep'06 Quarter	Targets for FY06/07	Outturn for FTYD
Inflation (% change)	3 - 4	2.4	***9.0 – 10.0***	***5.3***
Base Money (% change)	2.0	5.3	***11.7***	***8.5***
NIR (eop) (US$mn)	2077.8	2342.0	***2100.0***	***2077.8***
GDP (12-mth % chg.)	+ve	+ve	***3.0 – 4.0***	***+ve***

Money & Credit

Monetary Policy and Base Money Management

The Bank reduced interest rates on two occasions during the September 2006 quarter, in a context of faster than anticipated improvement in the domestic macroeconomy as well as favorable international conditions. In particular, the inflation outturn was below expectation while the NIR stock was above projection, underwriting stability in the foreign exchange market. Fiscal performance and real sector activities were also favourable. Falling international oil prices, in addition to a pause in the increase in U.S. Fed rates, also lent support to the Bank's easing of monetary policy. These positive developments were expected to continue.

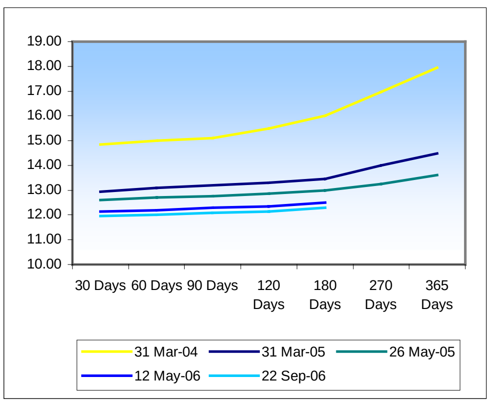
During the September 2006 quarter, the Bank relaxed monetary policy, continuing its stance since May 2006. In this context, interest rates were reduced on two occasions in September. The first reduction was effected on 1 September and the second on 22 September 2006. The spectrum of rates was reduced by 30 basis points (bps) and 20 bps, respectively, effectively lowering the yield curve. At end September, rates on BOJ reverse repurchase agreements ranged from 11.95 per cent on the 30-day tenor to 12.30 per cent on the 180-day tenor (see **Figure 1.1**).

These rate cuts were against the background of further improvements in the domestic macroeconomy, strong investor confidence as well as a favourable international environment. The improvements in the economy were at a faster rate than anticipated and were observed in key macroeconomic indicators including inflation, exchange rate and the NIR

Inflation for the quarter was 2.4 per cent, which contributed to inflation of 5.3 per cent for the first half of the fiscal year. The outturn for the quarter was below the Bank's forecast and resulted from anticipated improvements in domestic food supplies, falling international oil prices and protracted stability in the exchange rate. Based on the trend for the fiscal year to date, the Bank's view was that inflation for the fiscal year would be well within the single digit target outlined in the financial programme.

For the review quarter, the stability in the foreign exchange market was observed in a marginal depreciation in the exchange rate of 0.03 per cent. This change contributed to a depreciation of 0.85 per cent for the first half of the fiscal year. The stability in the exchange rate was underpinned by adequate foreign exchange inflows emanating from higher than anticipated increases in private capital flows as well as strong inflows from tourism and remittances (See **Foreign Exchange Market**). These factors enabled the Bank to build up foreign currency reserves of US$232.0 million, ending the quarter at US$2 342 million, well above the programme target. (See **Tables 1.1 and 1.2**)

Figure 1.1
BOJ Open Market Operations Yield Curve



Real sector activities also remained strong in the quarter. This was supported by heightened investment in the productive sectors, despite the extended shortage of cement in the economy (See **Real Sector Developments**). It was expected that the buoyancy in the economy would continue into the medium term, given a number of ongoing foreign direct investment projects.

In accordance with these positive developments that lent support to the Bank's easing of monetary policy, the monetary base increased by 5.3 per cent for the quarter relative to the programme target of 2.0 per cent. The deviation of the monetary base from programme stemmed primarily from the build up in the NIR.

Liquidity management supported by Government operations

The increase in the NIR for the review quarter injected $15 400 million of liquidity in the system. A significant portion of the proceeds from these flows was invested in Government instruments leading to a build up in the Government accounts of $6 197.9 million. This supported the Bank's liquidity management during the quarter thus reducing the reliance on OMO to fully sterilize the liquidity impact of the increase in the NIR. For the quarter, OMO absorbed $6 580.9 million (See **Figure 1.3 & Table 3 in Appendix**).

The higher than programmed increase in the monetary base was reflected in currency issue and the statutory cash reserves, the major components of the monetary base. The faster increase in currency issue reflected a temporary increase in currency in circulation on the final two days of the quarter. For most of the quarter, excess currency

Table 1.2

Net International Reserves June-Sept 2006 Flows (US$MN)				
	July	Aug	Sept	Total
NIR	-22.2	127.8	126.4	232.0

Figure 1.2
Base Money
(Quarterly Change)

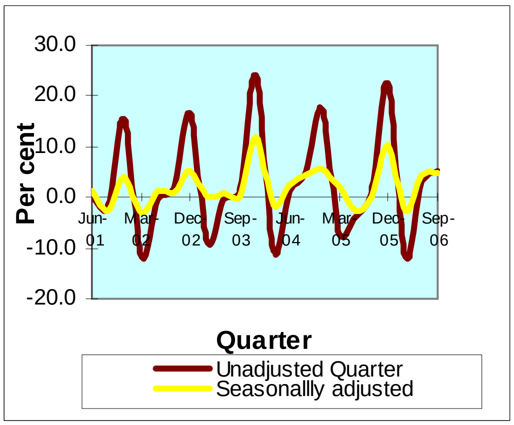
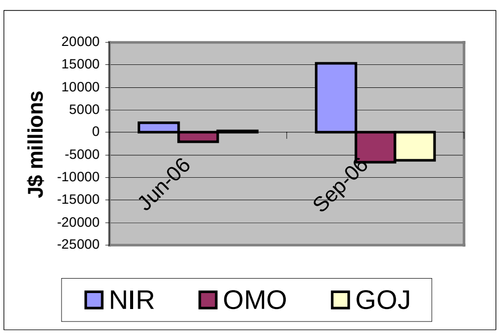


Figure 1.3
*Effects of the NIR, GOJ & OMO on liquidity**



*Absorption-negative, Injection-positive

issue reflected an increase in vault cash holdings of commercial banks. With regard to the cash reserves, the performance mainly reflected an increase in both public and private sector deposits. The faster than programmed expansion in the monetary base is not expected to have a potent impact on money supply and is therefore not regarded as a threat to the inflation target (see **Money Supply**).

Figure 1.4

Money Supply
(Quarterly Growth rates)
Sept. 2002 to 2006

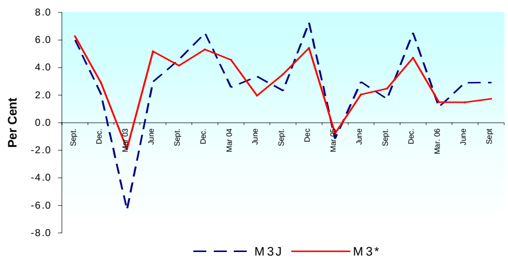


Table 1.3

Money Supply /1 (12-month growth rates)		
MJ	**Sep-05**	**Sep-06**
M1J	8.4	21.8
M2J	10.0	13.3
M3J	11.2	14.1
M*		
M1*	5.2	15.9
M2*	8.4	8.2
M3*	9.5	9.7

/1 **M* Includes Foreign currency deposits**

Table 1.4

INTEREST RATES IN THE DOMESTIC AND INTERNATIONAL MARKET			
	Aug-05	Jun-06	Aug-06
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	5.46	5.35	5.35
Demand	3.09	2.87	2.67
Savings	4.98	4.82	4.86
Time	7.10	7.17	7.08
Foreign Currency	3.35	3.22	3.33
Demand	3.01	2.76	2.50
Savings	2.27	2.27	2.27
Time	5.06	5.02	5.18
6-MONTH TREASURY BILL RATE	13.15	12.82	12.79
BOJ 180-DAY REPURCHASE AGREEMENT RATE	13.00	12.80	12.80
PRIVATE MONEY MARKET RATE	12.75	12.70	12.65
6-MONTH U.S. TREASURY RATE	3.66	4.97	4.97

Money Supply

Consistent with the increase in the monetary base, broad Jamaica Dollar money supply (M3J) increased by 2.9 per cent during the September 2006 quarter, relative to the 2.0 per cent expansion outlined in the monetary programme. On the demand side, the faster growth in money supply was mainly reflected in a higher than programmed expansion in local currency deposits. The supply of money was primarily influenced by a higher than anticipated build- up in the NIR as well as a faster increase in private sector credit.

The measure of money supply that includes foreign currency deposits, M3, increased at a slower rate relative to M3J. This slower growth was due to a 1.7 per cent reduction in foreign currency deposits which occurred in the context of stable macroeconomic conditions and positive outlook for the economy. The reduction in these deposits resulted in a significant decline in the ratio of foreign currency deposits to total private sector deposits.*

For the September quarter, broad Jamaica Dollar money supply (M3J) increased by $6094.7 million or 2.9 per cent. This increase was above the 2.0 per cent growth anticipated in the monetary programme and the 1.7 per cent increase recorded in the September 2005 quarter. The outturn in M3J for the review quarter brought growth for the first six months of the FY2006/07 to 5.9 per cent, which was lower than the 6.3 per cent anticipated in the ISP.

The relatively faster rate of growth in money supply for the quarter was consistent with improved confidence as a result of favourable macroeconomic developments which induced an increase in demand for Jamaica Dollars. These developments included a lower than expected inflation, continued buoyancy in real sector activities, higher than programmed build-up in the NIR and stability in the foreign exchange market. In addition, falling international oil prices also helped to lower inflation expectations.

The main source of growth in M3J during the review quarter was the net build up in the NIR equivalent to $15 400.2 million. This build up mainly reflected the Bank's purchases of foreign currency from the market in the context of buoyant foreign exchange flows. An expansion

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

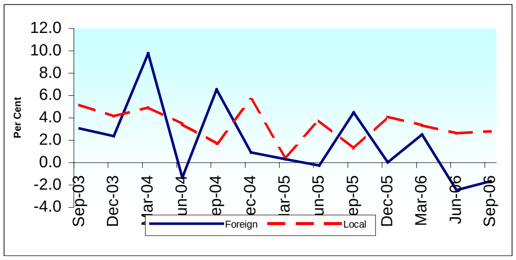


Figure 1.6
Foreign Currency Deposits to Total Deposits
Sept. 2003 to 2006

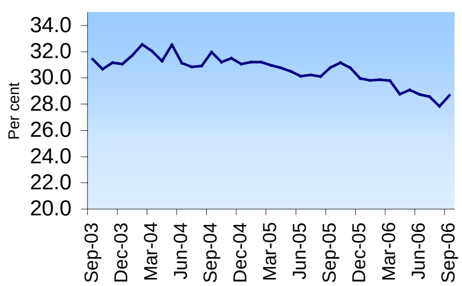


Figure 1.7
Money multiplier
(Quarterly Trend)
Sept. 2004 to 2006

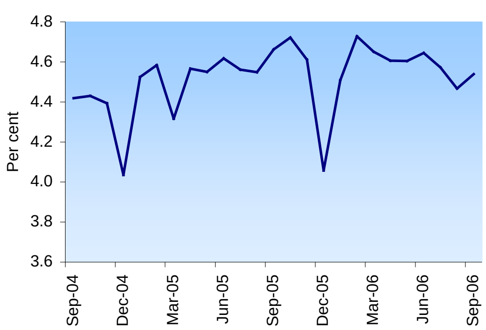


Table 1.5

COMPONENTS OF THE MONEY MULTIPLIER	Sep-05	Jun-06	Sep-06
	%	%	%
Currency to Deposits	14.67	15.16	15.26
Reserves to Deposits	9.92	9.64	10.13
Excess Reserves to Deposits	*2.04*	*1.87*	*2.13*
Cash Reserves to Deposits	*7.88*	*7.77*	*8.00*
Money Multiplier	**4.66**	**4.64**	**4.54**

of $4 976.3 million in banking system credit to the private sector was the other major source of monetary expansion.

With respect to the components of money supply, local currency deposits grew by $5 127.7 million or 2.8 per cent during the review quarter. This increase largely reflected growth of 5.2 per cent and 1.7 per cent in demand and savings deposits, respectively. Other deposits increased by 5.6 per cent while, time deposits declined by 3.3 per cent.

Currency in circulation, the other component of M3J increased by $966.9 million or 3.5 per cent. This was higher than the 2.0 per cent increase programmed for the review quarter. The higher than anticipated outturn for the quarter was influenced by an increase in demand from the public, albeit temporary, on the last two days of the quarter.

During the review quarter, M3* grew by 1.7 per cent, compared with 2.5 per cent recorded in September 2005. The slower rate of growth in M3* reflected a 1.7 per cent decline in foreign currency deposits. This reduction occurred in the context of stable foreign exchange market conditions which induced investors to convert some of their foreign currency holdings to Jamaica Dollar financial assets. Consequently, the ratio of foreign currency deposits to total private sector deposits declined to 27.8 per cent at end September 2006 relative to 30.8 per cent for the comparable period of 2005 (see **Figure 1.6**).

The money multiplier was 4.54 at end September 2006, which was lower than the 4.64 recorded at the end of the previous quarter and 4.66 at end September 2005 (see **Figure 1.7**). The outturn for the quarter reflected increases in both the reserve to deposit and the currency to deposit ratios. The fall in the money multiplier compensated for the faster than anticipated increase in the monetary base, and consequently dampened the potential impact of the monetary base on inflation.

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

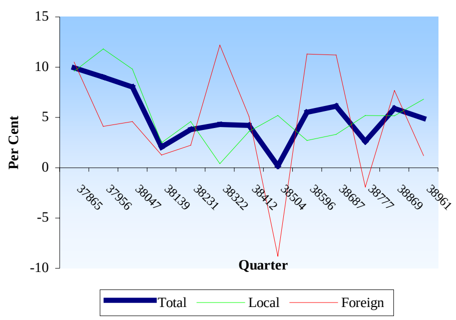


Table 1.6

Commercial Bank Distribution of Total Credit to the Private Sector J$ Million (Quarterly Flows)			
	Sep-05	Prov. Jun-06	Prov. Sep-06
Total Private Sector Credit	**5 091.0**	**6 237.6**	**5 454.3**
Loans and Advances	5 125.0	6 403.4	5 088.4
Other Investments and Private Debentures	-34.0	-165.8	365.9

Table 1.7

Commercial Bank Distribution of Loans & Advances to the Private Sector (FLOWS J$M)			
	Sep-05	Jun-06	Sep-06
Agriculture & Fishing	136.1	470.3	-533.1
Mining & Quarrying	48.0	0.0	266.9
Manufacturing	101.0	2 065.3	348.9
Construction & Land Dev.	-1 156.5	888.8	378.2
Transport, Storage & Comm.	-2 611.1	482.0	-2 130.5
Tourism	4 260.7	999.6	211.8
Distribution	272.9	-1171.5	1639.9
Professional & Other Services	526.6	-567.7	562.8
Personal Loans	3 407.5	3 206.0	4 937.0
Electricity, Gas & Water	130.6	12.9	-627.5
Entertainment	9.9	6.8	26.9
Overseas Residents	-0.8	10.9	7.0
TOTAL	**5 125.0**	**6 403.4**	**5 088.4**

Private Sector Credit

Private sector credit recorded buoyant growth during the September 2006 quarter, albeit at a slower pace than the previous quarter. The expansion during the review quarter exceeded the targeted increase in the monetary programme. The growth in credit largely reflected an acceleration in local currency denominated loans, which influenced the higher than programmed growth in the money supply. ***Personal Loans*** *continued to account for the largest proportion of the increase in credit during the quarter. Foreign currency loans decelerated as a result of significant repayments in two sectors. The weighted average rate for private sector loans increased marginally during the review quarter.*

Commercial bank credit to the private sector continued to expand during the September quarter in a context of favourable market conditions. At end September 2006, the stock of private sector credit was $117 647.3 million, representing an expansion of 4.9 per cent for the review quarter (See **Figure 1.8**). Growth in private sector credit surpassed the targeted increase of 3.6 per cent outlined in the monetary programme. However, the expansion was below the increases of 5.9 per cent and 5.5 per cent obtained during the June 2006 and September 2005 quarters, respectively. The expansion for the quarter brought growth in credit to 11.0 per cent for the first six months of FY 2006/07 relative to the programmed increase of 5.9 per cent. The increase in private sector loans largely reflected robust growth of 6.8 per cent in loans denominated in local currency as foreign currency loans recorded marginal growth of 1.2 per cent during the review quarter.

The expansion in private sector credit continued to be largely concentrated in ***Personal Loans***, which increased significantly by 10.5 per cent during the review quarter relative to growth of 7.4 per cent during the June 2006 quarter and 9.6 per cent during the comparable period of 2005 (See **Table 1.7**). This strong growth was primarily related to summer loan packages offered by commercial banks largely for back-to-school expenses, hurricane preparedness and vacation purposes. Given the robust demand for ***Personal Loans***, this loan category continued to account for the largest proportion of the outstanding stock of loans (See **Figure 1.9**). Some of the growth in

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

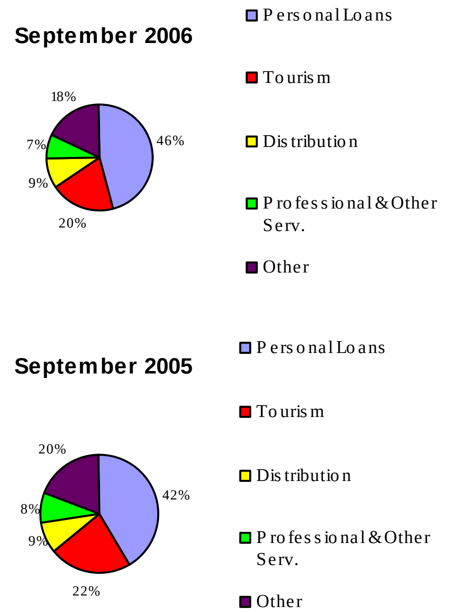
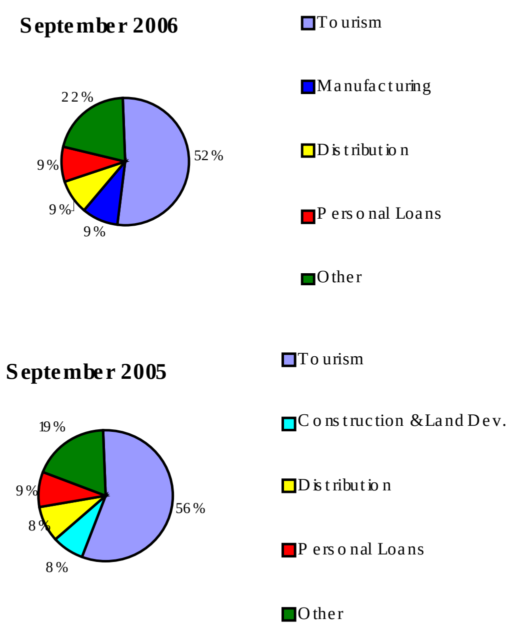


Figure 1.10
Sectoral Distribution of Foreign Currency Loans & Advances to the Private Sector Per Cent of Outstanding Stock
September 2005 & September 2006



Personal Loans during the review quarter was reflected in an expansion of $801.3 million or 8.1 per cent in credit card receivables[1]. This compared to growth of 8.0 per cent and 14.8 per cent during the previous quarter and the September 2005 quarter, respectively.

Loans to ***Distribution*** and ***Professional & Other Services*** also recorded significant expansions of 19.1 per cent and 7.5 per cent, respectively, during the review quarter. There were significant net repayments within the ***Transport, Storage & Communication***, ***Electricity, Gas & Water*** and ***Agriculture and Fishing*** sectors. All other sectors recorded growth in credit during the review quarter.

Against the background of sustained foreign exchange stability, there was continued growth in foreign currency loans to the private sector, albeit at a slower rate than the previous quarter (See **Table 1.8**). Foreign currency loans expanded by US$8.2 million or 1.3 per cent relative to the robust growth of 7.5 per cent and 8.4 per cent during the previous quarter and the September 2005 quarter, respectively.

Loans to ***Distribution*** recorded a strong increase of 15.0 per cent, consistent with the seasonal demand for loans in preparation for the Christmas holidays. There were significant net repayments within the ***Transport, Storage & Communication*** and ***Electricity, Gas and Water*** sectors during the review quarter, which moderated the overall growth in foreign currency loans relative to the previous quarter. Loans to ***Tourism*** continued to account for the largest proportion of the foreign currency loans stock (See **Figure 1.10**). Consistent with the marginal growth of foreign currency loans during the review quarter, the proportion of foreign currency loans to total loans fell to 33.8 per cent at end September 2006 from 35.0 per cent at end June 2006 and 34.3 per cent at end September 2005.

Interest Rates

The cost of funds for total loans remained relatively flat as reflected in the marginal increase in the overall weighted average lending rate for the two months ended August 2006. This outturn was partly influenced by a slight increase in the weighted average rate on private sector loans,

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

Table 1.8

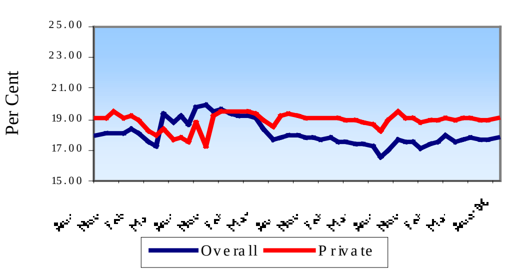
Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US$M)	Sep-05	Jun-06	Sep-06
Agriculture & Fishing	0.2	0.9	0.0
Mining & Quarrying	0.0	0.0	4.3
Manufacturing	-1.8	28.5	5.9
Construction & Land Development	5.9	7.4	0.8
Transport, Storage & Comm.	-44.4	6.3	-12.1
Electricity, Gas & Water	0.0	1.0	-9.1
Distribution	4.7	-11.9	7.2
Tourism	64.5	5.5	2.3
Entertainment	-0.1	0.0	0.3
Professional & Other Services	6.6	2.4	4.0
Personal Loans	8.0	3.6	4.5
Overseas Residents	0.0	0.0	0.1
TOTAL	**43.6**	**43.4**	**8.2**

Table 1.9

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type Per Cent	Aug-05	Jun-06	Aug-06
Overall	**17.65**	**17.60**	**17.70**
Public Sector	**12.77**	**12.95**	**13.15**
Local Govt. & Other Public Ent.	11.49	12.04	12.39
Central Government	15.95	16.19	15.99
Private Sector	**19.39**	**18.97**	**19.01**
Instalment	23.29	22.17	21.61
Mortgage	20.25	25.26	25.36
Personal	29.76	29.27	29.02
Commercial	14.42	13.85	13.68

Figure 1.11

Commercial Banks' Weighted Average Loan Rate



August 2002 to August 2006

largely reflected in an increase in rates on ***Instalment*** credit. In addition, the weighted average rate on public sector loans also increased marginally for the two months ended August 2006, reflecting slightly higher rates on loans to ***Local Government & Other Public Entities*** (see **Table 1.9**).

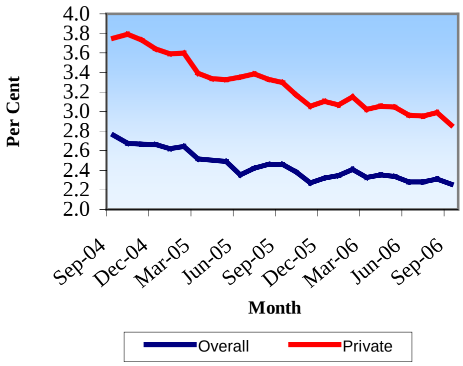
Similarly, the weighted average rate on foreign currency loans increased slightly to 9.85 per cent at end September relative to 9.77 per cent and 9.42 per cent at end June 2006 and end August 2005. The outturn for the two months ended August 2006 reflected an increase in the rates on both private and public sector loans. For private sector loans, the weighted average rate increased by 2 basis points (bps) to 9.91 per cent, primarily reflecting the impact of an increase in the concentration of loans within the ***Personal*** category. For the two months ended August 2006, foreign currency loan rates to the public sector rose by 27 bps to 9.10 per cent, reflecting an increase in rates to ***Local Government & Other Public Entities.***

Performance Indicators

Against the background of a trend decline in returns on fixed income securities, the commercial banks have been rebalancing their assets in favour of private sector loans. In this context, the ratio of private sector credit to total assets increased to 28.8 per cent at end September 2006 from 28.3 per cent at end June 2006 and 27.5 per cent at end September 2005.

The ratio of past due loans (over three months) to total loans at end September 2006 remained at the 2.3 per cent ratio obtained at end June 2006, but was below the 2.5 per cent ratio recorded at end September 2005. There was however, an improvement in the quality of the private sector loan portfolio as the ratio of past due loans to private sector loans decreased to 2.9 per cent relative to 3.0 per cent at end June 2006 and 3.3 per cent at end September 2005 (see **Figure 1.12**). The outturn continued to remain well within international standards

Figure 1.12
Commercial Banks' Past Due Loans (Three Months And Over) to Total Loans
September 2004 to September 2006



T able 1.10

July - September 2006	Amount allotted (J$MN)	Amount maturing (J$MN)	Net Maturity (J$MN)
Treasury bills	2,700.0	2,300.0	-400.0
Var. Rate LRS	0.0	3,597.2	3,597.2
Fixed Rate LRS	2,250.0	3,574.9	1,324.9
Var. Rate Inv. Deb.	7,354.0	0.0	-7,354.0
Fixed Rate Inv. Deb.	2,592.1	6,297.3	3,705.2
Var. Rate Inv. Bond	19,028.7	2,001.3	-17,027.4
Fixed Rate Inv. Bond	0.0	7,270.3	7,270.3
US$ indexed bond	0.0	204.0	204.0
Total (J$)	33,924.8	25,245.0	-8,679.8

Demand for Jamaica Dollar denominated instruments remains strong.

Table 1.11

Treasury Bill Auctions and Maturities July - September 2006

Issue Date	Tenor (days)	Avg. yield (%)	Allotment (J$M)	Amount Maturing (J$M)
28-Jul-06	182	12.81	500.0	
	91	12.62	400.0	
				900.0
25-Aug-06	182	12.79	500.0	
	91	12.68	400.0	
				900.0
22-Sep-06	182	12.49	500.0	
	91	12.44	400.0	
				500.0
Total			**2700.0**	**2300.0**

Average GOJ yields continue to fall

Bond Market

The improvement in the local bond market evidenced in the June 2006 quarter continued throughout the September quarter. In this regard, the demand for Jamaica Dollar denominated instruments remained strong despite declines in rates on BOJ and GOJ instruments. The Government lengthened the maturity profile on its debt and pre-financed its activities mainly through the net issue of variable rate instruments.

Continued improvement in Jamaica's economic indicators, in addition to stable interest rates in the U.S.A., led to renewed interest in Jamaica's global bonds

During the September 2006 quarter, the Government issued more debt instruments relative to the June quarter, given the strategy of borrowing ahead of its immediate needs. Net allotments on ten publicly issued GOJ debt instruments in the domestic market amounted to $8 679.8 million (see **Table 1.10**). This was relative to $4 221.4 million allotted on eight debt instruments in the June 2006 quarter. Most of the debt was contracted at variables rates, notwithstanding the fact that an equal number of variable rate and fixed rate instruments were issued.

The initial coupon on variable rate debt was lowered in the quarter in keeping with a trend decline in interest rates throughout the quarter and further rate cuts by the BOJ in September (See **Base Money and Monetary Policy Management**). Similar to the previous quarter, most of the variable rate instruments were contracted using a pricing strategy of 1.625 per cent above the six-month weighted average Treasury Bill yield (WATBY).

During the review period, average yields on the 91-day and 182-day tenors of GOJ Treasury Bills declined by 33 basis points and 20 basis points, respectively. As such, the yields on these respective tenors were 12.49 per cent and 12.44 per cent as at end September (see **Table 1.11**). Much of the decline occurred at the auction held in September and was influenced by the BOJ's rate cut on 1 September.

In the context of favourable macroeconomic conditions, demand for Jamaica Dollar denominated assets remained strong. During the quarter, the BOJ's open market instruments absorbed comparatively

Table 1.12

Placements and Maturities* in BOJ OMO Instruments : July - September 2006	Maturities (%)	Placements (%)
30-day	47.3	47.8
60-day	5.6	4.6
90-day	14.4	11.9
120-day	4.2	5.9
180-day	5.2	29.9
270-day	1.3	0.0
365-day	21.9	0.0

*excludes overnight transactions during the period

Figure 1.13

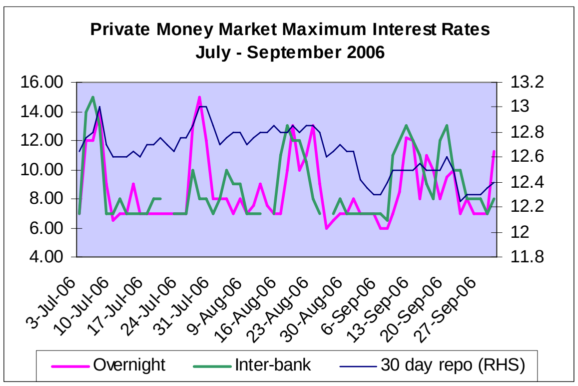
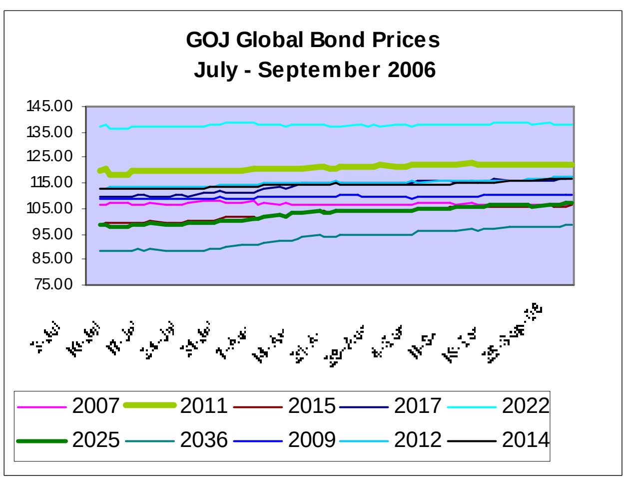


Figure 1.14

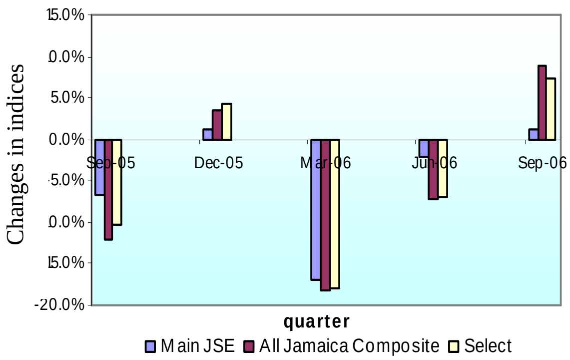


more liquidity from the system than in the previous quarter. The 180-day instruments received a significant amount of the placed funds as maturities from the 270-day and 365-day tenors were reinvested in this tenor (See **Table 1.12**). The majority of placed funds resided on the 30-day instruments as institutions continued to position for liquidity needs.

Interest rates in the private money market hovered near to those of the previous quarter, averaging 8.58 per cent, 12.64 per cent and 8.83 per cent on overnight, 30-day and inter-bank transactions, respectively (**see Figure 1.13**). Spikes in rates coincided largely with the take-up of the Government's variable rate instruments.

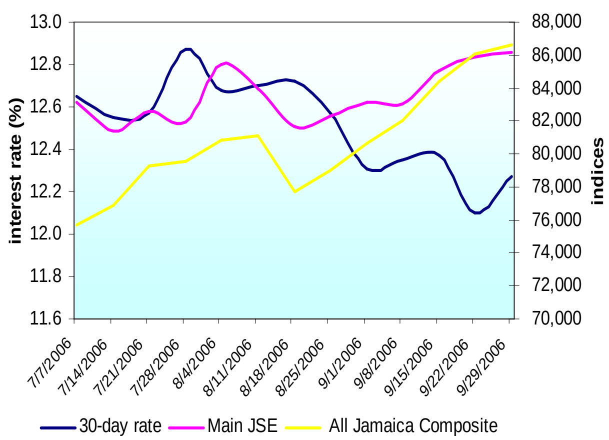
Global bond yields fell across all maturities with the declines ranging from 1.00 percentage point to 1.43 percentage points. Against the background of improvement in the domestic macroeconomic environment, falling US inflation and no adjustments in US Fed rates, investors renewed interest in Jamaica's global bonds (See **International Economic Developments**). This demand occurred across the full spectrum of Jamaica's global bonds and in particular, those of longer tenors and attractive coupons (see **Figure 1.14**).

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



Source: Jamaica Stock Exchange

Figure 1.16
30-day Private Repo Rate, Main JSE and Jamaica
Composite Indices – September 2006 Quarter



Source: Jamaica Stock Exchange

Table 1.13
Average Monthly Price Gains by Category -
September 2006 Quarter

Conglomerates	-2.4	1.6	11.6
Communication	0.3	-1.9	3.1
Financial	1.0	0.6	5.7
Insurance	-2.4	-4.6	2.8
Manufacturing	3.4	6.2	3.6
Other	-12.2	5.8	1.5
Retail	-0.7	-3.0	14.1
Tourism	27.6	-4.5	3.6

Stock Market

The Main Jamaica Stock Exchange (JSE) Index increased moderately during the September 2006 quarter. The gain in market performance reflected a more positive investor outlook due to sustained improvements in the macroeconomic fundamentals. Price increases were supported by adequate liquidity, relative stability in the domestic foreign exchange market and declines in local interest rates. Market sentiments were also positively influenced by expansion plans as well as restructuring and reorganization exercises undertaken by a number of the listed companies. Improved earnings performance of the listed companies and growth in stock market indices are anticipated in the December quarter.

Improved investor confidence contributed to increases in all three stock market indices for the September 2006 quarter. Relative to end June 2006, the Main JSE Index increased by 1.3 per cent to close the quarter at 86 196 points (see **Figure 1.15**). Similarly, the All Jamaica Composite Index increased by 8.8 per cent, reflecting strong investor interest in Jamaican companies, while the JSE Select Index increased by 7.2 per cent. Growth in the Main JSE index followed an average decline of 6.1 per cent over the previous four quarters.

The moderate rebound in the equities market for the review quarter occurred in the context of continued stability in the foreign market buoyed by strong NIR levels, improved growth prospects and continued declines in local interest rates. Furthermore, lower than anticipated domestic inflation rates and a moderation in inflation expectations contributed to an improvement in investor outlook regarding the prospects for company performance (see **Monetary Policy and Base Money Management**).

For the first two months of the September quarter, the performance of all the indices was generally weak, but improved markedly in September. The stronger growth momentum in the market during September was largely influenced by the generally lower interest rate environment led by BOJ actions during the month (See **Figure 1.16** and **Monetary Policy and Base Money Management**). The Main JSE Index grew by 2.6 per cent, relative to an average decline of 0.6 per cent over the previous two months. Several listed companies experienced stock price increases that fueled the performance in the Index. For the majority of categories, average price gains for the month exceeded average monthly gains for the

Table 1.14
10 Largest Advancing Stocks - September 2006 Quarter

Companies	Price at 30-Sep-06 $	Qtr. Change %
Advancing Stocks		
Manufacturing		
Caribbean Cement	7.00	55.90
Kingston Wharves	6.18	18.16
Jamaica Broilers	3.80	26.67
Berger Paints	3.40	17.24
Financial		
NCB	18.21	26.46
Mayberry Investments	2.88	44.00
Tourism		
Montego Bay Freeport	2.10	40.00
Retail		
Hardware & Lumber	19.50	42.86
Conglomerate		
Lascelles	250.0	31.59
Carreras	46.50	24.00

Table 1.15
10 Largest Declining Stocks - September 2006 Quarter

Companies	Price at 30-Sep-06 $	Qtr. Change %
Declining Stocks		
Manufacturing		
Goodyear	8.01	-15.68
Salada Foods Ltd.	26.00	-8.77
Financial		
CCBM	11.50	-20.69
JMMB	10.62	-8.84
FCIB	11.80	-3.67
Tourism		
Ciboney	0.04	-20.00
Communications		
Grace Kennedy	52.48	-13.26
Insurance		
Guardian Holdings Ltd.	195.0	-20.4
Other		
Supreme Ventures	2.03	-1 8.8

previous two months (see **Table 1.13**).

In the context of the lower interest rate environment some financial companies experienced weakened earnings performance. Given expectations that this environment will be sustained, several companies have made efforts to improve earnings by restructuring their business operations. Additionally, during the review quarter, several non-financial companies embarked on initiatives geared at maximizing the earnings potential of their operations. Jamaica Broilers Group announced plans to construct and operate an Ethanol production facility by 2007, which is expected to increase profits by 50.0 per cent over the next two years. Grace Kennedy Limited also announced reorganization plans involving a merger of several companies within its food trading operations. Seprod continued to diversify its operations through various acquisitions in order to expand the scope of its operations.

For the September 2006 quarter, 20 stocks recorded price gains while 13 experienced declines. Strong price gains were evident for several listed firms in the manufacturing, retail, financial and tourism categories (See **Table 1.14)**. In particular, significant institutional demand drove the price gains for financial stocks. Many listed firms in the manufacturing and retail sectors experienced improvements in profitability due to the easing of the cement shortage and a pick-up in construction activity. Some of the manufacturing companies that reported an improvement in earnings during the quarter were Berger Paints and Kingston Wharves. Among the top performers were Caribbean Cement, Mayberry Investments and Hardware and Lumber.

Stocks of cross-listed entities generally performed poorly in the review period. In the context of a higher inflation and interest rate environment, the stock market indices of Trinidad & Tobago and Barbados recorded a third consecutive quarterly decline for 2006. For Trinidad & Tobago, the Composite Index declined by 5.6 per cent, compared to a decline of 4.0 per cent in the previous quarter while for Barbados, the Local Index declined by 1.8 per cent relative to 1.3 per cent for the June 2006 quarter (see **Figure 1.17**).

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

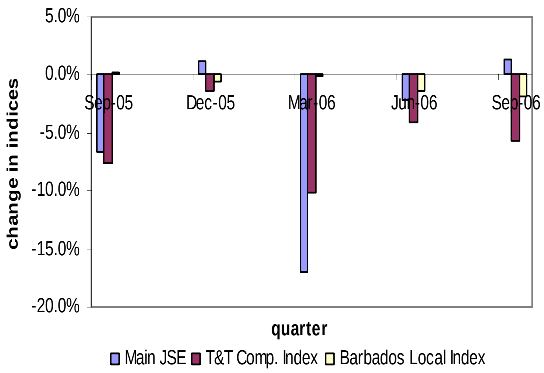


Figure 1.18

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

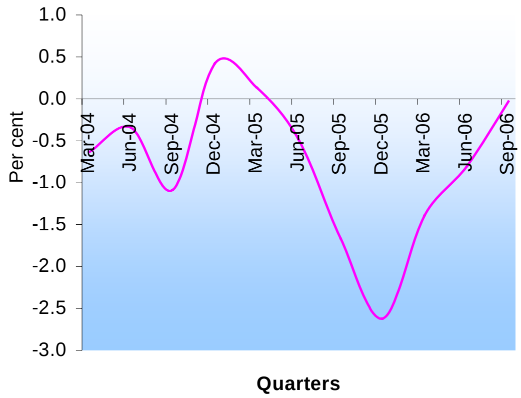
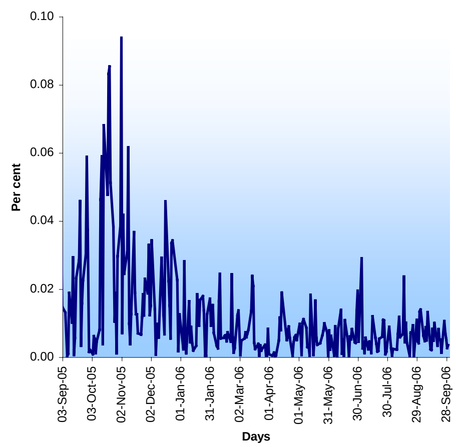


Figure 1.19

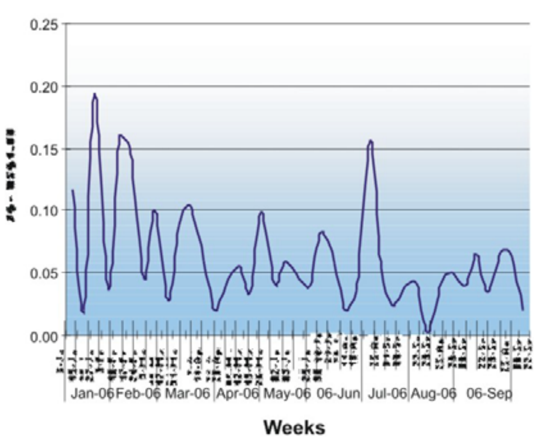
Exchange Rate Volatility (*)



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

Figure 1.20

Weekly Exchange Rate Trading Range



Foreign Exchange Market

The foreign exchange market was generally stable throughout the September 2006 quarter. The exchange rate appreciated in July and August but depreciated in September to reflect an overall marginal decline of 0.03 per cent for the quarter. Stability in the market was underpinned by an increase in net private capital inflows. The higher inflows were largely attributed to improved investor confidence given continued reductions in domestic inflation during the quarter and a general improvement in the macroeconomy.

In the context of the improved inflows, the BOJ purchased US$246.0 million (net) from the market. This facilitated an increase in the NIR to US$2 342.0 million at end September, which was US$264.2 million higher than the programmed level. Gross reserves at end September represented 18.8 weeks of estimated goods and services imports, above the international benchmark of 12.0 weeks.

The selling price of the US dollar at end September 2006 was J$ 66.05, which, when compared with the J$66.03 at end June 2006, represented a marginal depreciation of 0.03 per cent. This was the smallest movement in the exchange rate since the March 2005 quarter (see **figure 1.18**). The exchange rate appreciated by 0.07 per cent and 0.04 per cent in July and August, respectively, before depreciating by 0.14 per cent in September. The depreciation in September largely reflected the impact of some primary dealers covering short US dollar trading positions as well as the seasonal increase in demand for foreign currency.

Stability in the foreign exchange market during the review quarter was also indicated by a narrowing of the weekly trading range to an average of J$0.04, relative to an average of J$0.06 for the preceding quarter (see **Figure 1.20**)[2]. Similarly, the bid-ask spread, expressed as a percentage of the buying rate, declined by 5.3 per cent in the review period (see **Figure 1.21**).

The main source of market stability was a significant increase of US$300.0 million in net private capital inflows during the quarter, relative to the June 2006 quarter. A part of these inflows was associated with the receipt by the financial system of loan proceeds amounting US$130.0 million, related to

2The trading range for the exchange rate is an indicator of risk or uncertainty. It is the difference between the high and low quotes for the sale of US dollars over a particular period.

Figure 1.21
Foreign Exchange Spread as a Percentage of Buying Rate

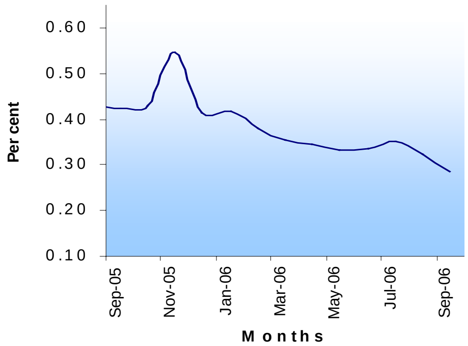


Table 1.16
Foreign Exchange Cash Flows*

US$mn

	2005	2006		Change Relative To Previous	
	Jul-Sep	Apr-Jun	Jul-Sep	Qtr	yr
Net Current Inflows	-654.0	-448.5	-569.9	*-121.3*	*84.1*
Current Inflows	771.2	935.6	913.8	*-21.8*	*142.6*
Current Outflows	1425.1	1384.1	1483.7	*99.6*	*58.6*
Net Private Capital Inflows	638.4	516.4	815.8	*299.4*	*177.4*
Balance	-15.6	67.9	246.0	*178.1*	*261.5*

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

Table 1.17
Net International Reserves
(US$MN)

Month	Stock	One Month Change	Three Month Change
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	-70.2
Nov-05	2093.8	14.8	-23.7
Dec-05	2087.4	-6.4	-31.6
Jan-06	2093.5	6.1	14.5
Feb-06	2024.2	-69.3	-69.6
Mar-06	2078.1	53.9	-9.3
Apr-06	2151.8	73.7	58.3
May-06	2162.8	10.9	138.6
Jun-06	2110.1	-52.7	32.0
Jul-06	2087.8	-22.8	-63.9
Aug-06	2215.6	127.8	52.8
Sep-06	2342.0	126.3	232.0

Highway 2000. In addition, there was an estimated decline of US$112.7 million in the net foreign currency position of authorized dealers, the major intermediaries in the market. This jump in net private capital flows was related to an improvement in investor confidence, largely facilitated by a reduction in inflation, a better than targeted performance of the fiscal accounts and a general buoyancy in the real economy (See **Inflation** and **Real Sector Developments**).

Supplies to the foreign exchange market emanating from tourism, mining and non-traditional exports also contributed to market stability during the quarter. Cash inflows from these respective sources were estimated to have increased by US$68.4 million (18.4 per cent), US$44.2 million (131.2 per cent), and US$14.7 million (20.7 per cent) when compared with the similar period of 2005. Outflows on the other hand were estimated to have increased by US$58.6 million, largely reflecting higher payments for imports of non-fuel raw materials, capital goods and, to a lesser extent, transportation.

With respect to the authorised dealer segment of the foreign exchange market, the increase in net private flows was evident in their net sales of US$105.6 million during the review quarter. This was US$89.1 million higher than the net sales recorded in the September 2005 quarter. Total market sales increased by 46.8 per cent to US$3 270.2 million, relative to the September 2005 quarter. However, purchases for the quarter expanded to US$3 160.3 million, compared with US$2 244.0 million in the comparable period of 2005.

Given the strong inflows during the quarter, the Bank purchased US$246.0 million (net), compared with net sales of US$15.6 million in the September 2005 quarter. In this context, the NIR at end September was US$2 342.0 million, representing an increase of US$232.0 million relative to end June. This level of NIR was US$264.2 million above the programme target. The Bank's gross reserves at end-September 2006 were US$2 474.7 million, representing 18.8 weeks of projected goods and services imports.

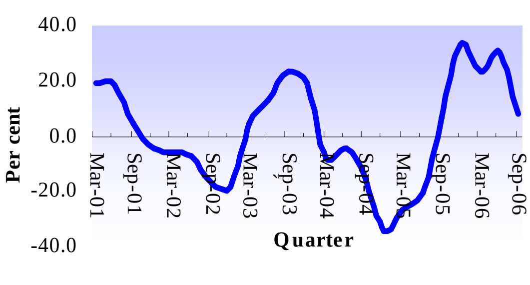
2. Real Sector Developments

Table 2.1

SECTORAL CONTRIBUTION TO GROWTH September 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

Buoyant growth driven by Tourism, Transport and Agriculture

Figure 2.1
Trends in Domestic Crop Production
(12-Month change)



Source: Ministry of Agriculture

In the context of a stable macroeconomic environment, the buoyancy in the economy observed since September 2005 continued in the review quarter. This performance reflected the impact of new investments, as well as continued recovery in a number of sectors. Leading indicators of economic activity suggest that, with the exception of manufacturing, all sectors recorded favourable growth. The expansion in economic activity was reflected in increases in all the components of aggregate spending.

Aggregate Supply[3]

An assessment of the performance of the real sector for the September 2006 quarter indicates a notable expansion in overall GDP, relative to the corresponding quarter of 2005. This growth was in line with the trend growth of 2.7 per cent recorded since the September 2005 quarter.

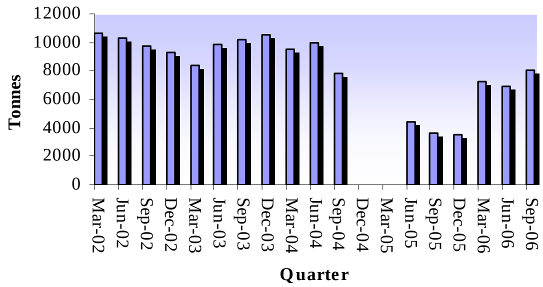
The stable macroeconomic environment characterised by declining inflation and stable financial markets facilitated the general expansion in output during the quarter. The expansion was also supported by a notable increase in credit to the productive sectors. For the 12- months to August 2006, credit to these sectors increased by 6.8 per cent. Against this background, Real GDP growth in the review period reflected the impact of new investments, as well as the normalization of output levels, particularly in export agriculture.

The primary impetus to growth during the period emanated from ***Miscellaneous Services***, ***Transport***, ***Storage & Communications*** and ***Agricultur***e. *Manufacturing* was the only sector that was estimated to have declined in the review period.

Agriculture, ***Forestry & Fishing*** continued to reflect buoyant growth, influenced by favourable weather conditions during both the planting and reaping cycles, as well as improved farming practices. Against this background, domestic crop production, particularly commodities for which Jamaica has a competitive advantage (e.g. condiments, tubers and fruits), recorded favourable growth (see **Figures 2.1**). The

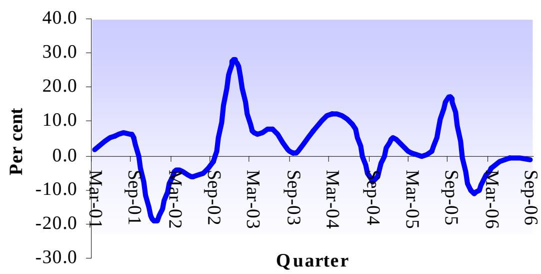
[3] GDP can be measured via the production approach, which looks at *the production of goods and services within the economy* (Aggregate Supply) or using the expenditure approach *through spending on final goods and services* (Aggregate Demand).

Figure 2.2
Banana Export



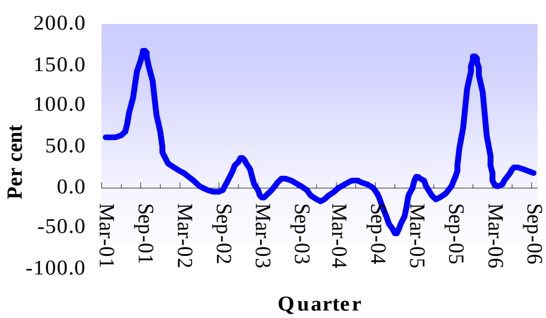
Source: Banana Export Company, Bank of Jamaica[4]

Figure 2.3
Trends in Alumina Production
(12-Month change)



Source: Jamaica Bauxite Institute

Figure 2.4
Trends in Crude Bauxite Production
(12-Month change)



Source: Jamaica Bauxite Institute

[4] No export of bananas during December 2004 and March 2005 quarters due to Hurricane Ivan, which disrupted activities within the industry.

improvement in export crop production relates chiefly to the continued recovery in the production of banana and citrus (see **Figure 2.2**).

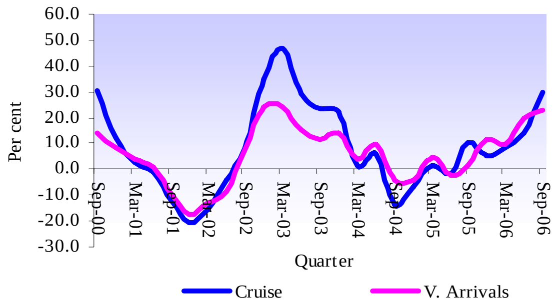
With a stable industrial climate and buoyancy in international demand, the recovery in ***Mining*** output, albeit small, continued in the review quarter. Crude bauxite production improved by 16.1 per cent, while there was a marginal decline of 1.0 per cent in alumina production, when compared to the corresponding period of 2005 (see **Figures 2.3** and **2.4**). In this context, growth in the value added of the ***Mining*** sector is estimated to have been slightly higher than the average growth observed over the previous four quarters.

Construction & Installation is estimated to have remained relatively flat in the review quarter. This was primarily influenced by the shortage of cement on the domestic market, which resulted in a postponement of a number of new projects and delays in existing projects. Cement imports, which were expected to fill the gap, only materialised during the last half of September and as such had little impact on output in the quarter.

Manufacturing is estimated to have declined for the fourth consecutive quarter, due mainly to the fallout in the tobacco industry and the reduction in cement production. These declines offset the growth which occurred in other industries such as food processing, beverages and petroleum refining.

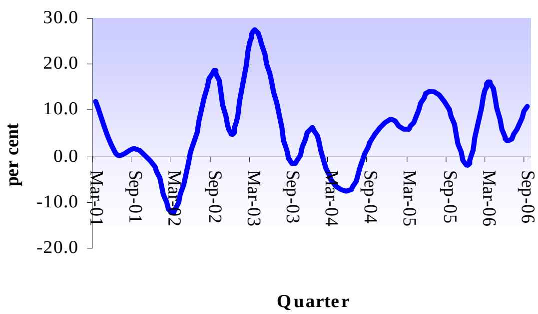
During the review period, there was a continuation of the robust growth observed in ***Transport, Storage & Communication*** in the previous quarter. Growth emanated primarily from activities within air and water transportation. All the indicators of activity in this sector pointed to appreciable growth. Domestic cargo movements across the ports and the number of ships calls grew by 17.4 per cent and 3.9 per cent, respectively. In addition, air cargo movement, as well as visitor arrivals increased by 17.2 per cent and 22.9 per cent, respectively. The performance of ***Transport, Storage & Communication*** reflected a favourable international economic environment for trade and travel. In this context, there was increased airlift capacity, the expansion of port facilities and normalisation in activities over 2005, which was due to the fallout in air travel in the September 2005 quarter.

Figure 2.5
Total Visitor Arrivals and Cruise Passenger Arrivals
(12-Month change)



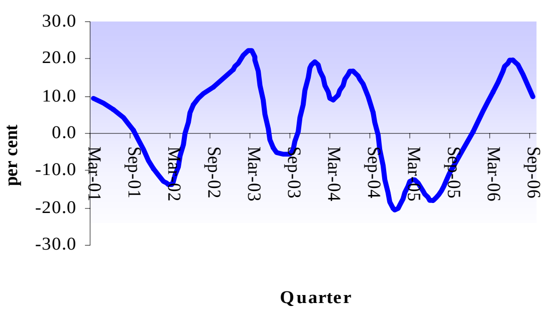
Source: Jamaica Tourist Board

Figure 2.6
Trends in Imports
(12-Month change)



Source: STATIN, Bank of Jamaica

Figure 2.7
Trends in Consumption Tax Receipts
(12-Month change)



Source: MOF, Bank of Jamaica

The favourable international economic environment for travel and increased airlift capacity also underpinned continued robust growth in ***Miscellaneous Services,*** particularly in the *Hotel, Restaurant & Clubs* sub-sector**.** The expansion in this sector surpassed the average quarterly growth of 9.4 per cent recorded in 2005. Total stopover visitors grew by 18.8 per cent, while cruise passenger arrivals expanded by 29.5 per cent (see **Figures 2.5**). These activities facilitated an increase of 18.3 per cent in visitor expenditure, relative to the corresponding quarter in 2005. The growth in arrivals was facilitated by increased marketing by both the private sector and the Jamaica Tourist Board, as well as the staging of a major music festival.

Aggregate Demand

The estimated growth in output was reflected in expansions in ***Private*** and ***Public Consumption*** spending**,** as well as ***Gross Fixed Capital Formation***. In addition, there was an improvement in ***Net External Demand*** during the review quarter.

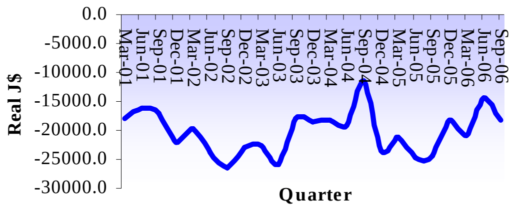
The expansion in ***Private Consumption*** spending was inferred from real increases of 9.9 per cent and 10.9 per cent in goods imports and consumption tax receipts, respectively (see **Figures 2.6 & 2.7**). An expansion of 17.3 per cent in credit card receivables in the September 2006 quarter relative to the comparable quarter in 2005 also pointed to the growth in private spending. The increase in spending is consistent with the continued improvement in consumer confidence as reflected in the Jamaica Conference Board's survey of consumer confidence.[5] The strong consumer confidence since the beginning of the year is primarily reflective of consumers' expectations of increased income, which is likely to have translated into increased consumption.

Growth in ***Public Consumption*** reflected an increase of 13.2 per cent in wages and salaries during the review quarter, relative to the September 2005 quarter (see **Appendix A: Fiscal Developments**).

Continued expansion in ***Gross Fixed Capital Formation*** was inferred from an estimated 30.0 per cent increase in capital goods imports for the quarter. The flow of investment was mainly to the tourism sector.

[5] Consumer confidence increased by 22 per cent in the review period when compared to the similar period of 2005.

Figure 2.8
Trends in External Demand
(12-Month change)



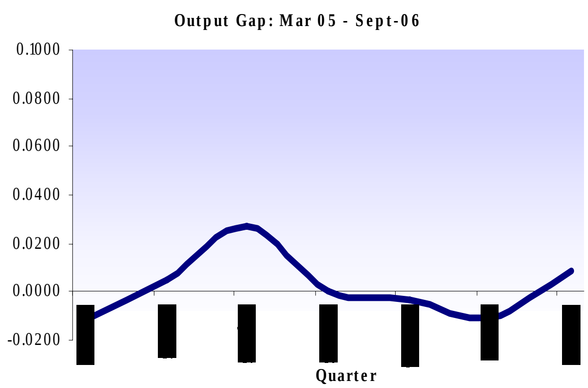
There was a noticeable improvement in ***Net External Demand*** during the review period, when compared to the corresponding period of 2005 (see **Figure 2.8**). The improvement was influenced by an estimated increase of 21.8 per cent in the export of goods and services, which was partly offset by growth of 7.3 per cent in the imports of goods and services. The performance of export was driven primarily by increases in alumina and bauxite, as well as mineral fuels and ethanol. There was also a considerable improvement in net travel receipts. The growth in imports was attributed partly to increases in capital goods and raw materials.

Minimal inflationary pressures generated from output gap

Output Gap

The indicators of the output gap[6] suggest that output since the December 2005 quarter was below potential, with a marginal increase in the September 2006 quarter (see **Figure 2.9**). This implied minimal inflationary impetus from constraints in supply. However, supply constraints still exit in the cattle and fish industries.

Figure 2.9
Trends in Output Gap



[6] The output gap, which is the difference between potential output and actual output is estimated using a Structural Vector Autoregression model, a Kalman Filter and a Hodrick Prescott de-trended output.

BOX 1: ***Labour Market Update - June 2006***

Introduction

This box provides a brief update of labour market activities in Jamaica for the June 2006 quarter. The focus will be on employment and labour productivity, two key labour market indicators. Consistent with increased investment and growth, there has been continued improvement in employment, but labour productivity still remains weak.

The unemployment rate as at June 2006 was 10.7 per cent, which compared favourably with 12.2 per cent and 12.1 per cent in the June 2005 and the March 2006 quarters, respectively. However, for the first half of 2006 the average rate remained relatively stable when compared to the similar period in 2005. Another measure of unemployment, the job seeking rate[7], declined by 0.5 percentage point and 0.7 percentage points, respectively, relative to the June 2005 and March 2006 quarters. This decline is attributed partly to the increase in the amount of persons at school full time, as well as those who were not seeking employment.

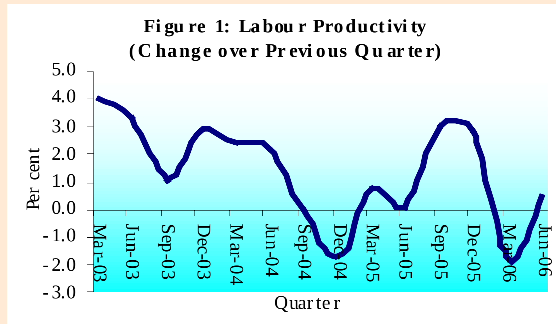
During the review period, the number of persons employed in the Jamaican economy increased by 3.9 per cent to 1.3 million, relative to the comparable period in 2005. The mining, manufacturing and construction sectors accounted for the greatest increase (See **Table 1**).

Table 1: Employed Labour Force: Corresponding quarter chang

	%		
	Jun-05	**Mar-06**	**Jun-06**
Agriculture	-0.83	0.46	1.21
Mining	9.09	0.00	16.39
Manufacturing	5.86	2.35	11.10
Construction	-9.03	-8.83	6.62
Distribution	3.81	6.20	5.28
Electricity	-3.13	3.08	-11.11
Transportation	-0.67	-1.75	1.19
Financial	17.38	2.60	0.00

[7] Measures the proportion of the labour force that does not have a job and is actively looking for work,

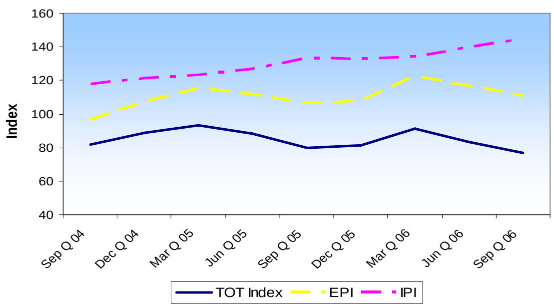
Labour productivity measured as real GDP per worker improved marginally in the June 2006 quarter when compared to the corresponding period in 2005 (See **Figure 1**).



Improved productivity was recorded within agriculture, electricity & water and transport, storage & communication. The improvement in agriculture was attributed to favourable weather conditions during the first half of the year, which enhanced the performance of the sector. Mining, manufacturing, and construction, however, registered declining labour productivity during the period. Productivity within the mining sector was affected by the various industrial disputes during the June quarter, while the shortage of cement on the domestic market would have affected activities within the construction industry.

3. International Developments

Figure 3.1
Jamaica Terms of Trade Index
Sept-04 to Sept-06
(Quarterly average)



Jamaica's terms of trade deteriorated during the September 2006 quarter

International influences on the Jamaican economy were mixed during the September 2006 quarter. Jamaica's terms of trade (TOT) was estimated to have deteriorated during the quarter, due principally to a seasonal decline in the implicit price of Jamaica's tourism product, in conjunction with an increase in the prices of some imported raw materials[8]*.*

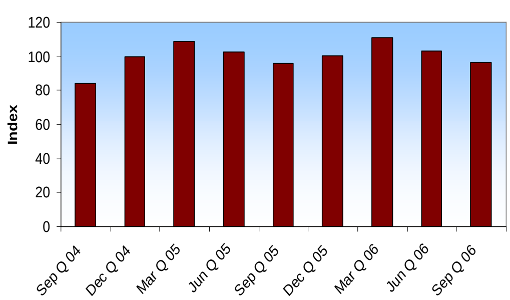
On the international capital market, the spread between the yields on Government of Jamaica (GOJ) sovereign bonds and comparable US Treasuries declined over the quarter, similar to other emerging market debt instruments. The narrowing of the spread reflected a fall in the yields on GOJ sovereign bonds, which outstripped the decline in long-term rates in the USA. The decline in US rates reflected investors' views that acceleration in long-term inflation was unlikely. Demand for emerging market bonds was affected by buoyant liquidity, reinforced by perceptions of the monetary policy stance in the USA and favourable performances of individual economies, including Jamaica.

With respect to short-term rates, monetary policy in the USA was not adjusted during the quarter, but rates in Europe and the UK were adjusted upwards. There were also increases in private money market rates around the world.

Terms of Trade

Jamaica's terms of trade (TOT) deteriorated during the September 2006 quarter by an estimated 8.2 per cent, relative to the June 2006 quarter (see **Figure 3.1**). This decline however, compares favourably with an average fall of 11.0 per cent in the Index over the past four September quarters. The deterioration in the TOT Index for the review period reflected a fall of 5.1 per cent in the Export Price Index (EPI), which was exacerbated by an increase of 3.3 per cent in the Import Price Index (IPI).

Figure 3.2
Implicit Tourism Price Index



The fall in the EPI over the review period was primarily attributable to respective declines of 6.3 per cent and 27.8 per cent in the tourism implicit

[8] 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.

Figure 3.3
Raw Materials Prices
(*Monthly averages*)

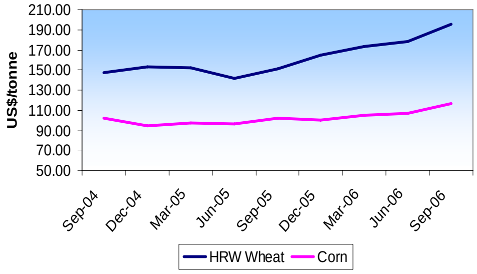


Figure 3.4
WTI Crude Oil Pries
Sep 03 -Sep 06
(Qtrly Average)

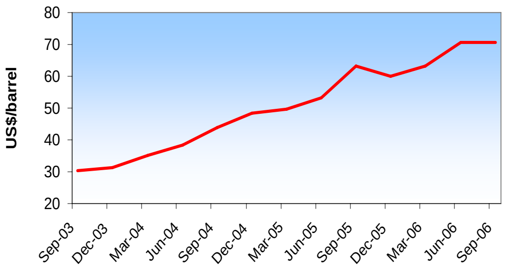


Table 3.1

Selected Key Interest Rates Jun-06 to Sep-06				
	Jun-06	Jul-06	Aug-06	Sep-06
USA	5.25	5.25	5.25	5.25
Canada	4.25	4.25	4.25	4.25
Euro Zone	2.75	2.75	3.00	3.00
UK	4.50	4.50	4.75	4.75
Japan	0.10	0.25	0.25	0.25

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

price index (TIPI)[9] and sugar prices (see **Figure 3.2**). The fall in the TIPI was however, relatively small, compared with an average seasonal decline of 9.5 per cent over the past four September quarters. With respect to the price of sugar, there was a downward adjustment in the price of the commodity on the EU market, following the implementation of the new EU sugar regime on 1 July.

Given unchanged crude oil prices over the quarter, respective increases of 9.7 per cent and 9.1 per cent in the prices of wheat and corn (see **Figure 3.3**) were the main impetus to the increase in the IPI. These increases were triggered by reductions in production because of hot, dry weather in several major producing countries. In addition, increased demand for corn used as feed-stock, as well as for the production of ethanol, precipitated an increase in prices during the quarter.

The average price of crude oil remained at US$70.50 per barrel for the quarter, when compared with the June 2006 quarter[10]. This stability was due to a sharp decline in the price of the commodity in September, which offset increases in July and August (see **Figure 3.4**). The decline in oil prices for September reflected the impact of reduced geopolitical tensions, particularly in Nigeria and Iran, as well as a perceived reduction in demand given higher than anticipated crude oil inventories in the USA.

International Capital Market Developments

Short-term interest rates

Key interest rates among Jamaica's main trading partners were either kept constant or increased over the review quarter (see **Table 3.1**). The Bank of Canada kept their official interest rates unchanged at 3.75 per cent in the September 2006 quarter as inflationary pressures eased. In the USA, the Federal Reserve (Fed) maintained their target rate at 5.25 per cent throughout the quarter, following seventeen previous increases of 25 basis points (bps) between June 2004 and June 2006. The decision by the Fed to keep interest rates stable during the review period partly reflected expectations of a moderation in inflation, given the reductions in energy prices in September, as well as the cumulative effects of past monetary policy actions on aggregate demand. There was also the concern that past

[9] The Tourism Implicit Price Index measures the ratio of the average tourist expenditure to their average length of stay.
[10] Measured by the benchmark West Texas Intermediate (WTI) index.

Figure 3.5
US Treasuries Yield Curve

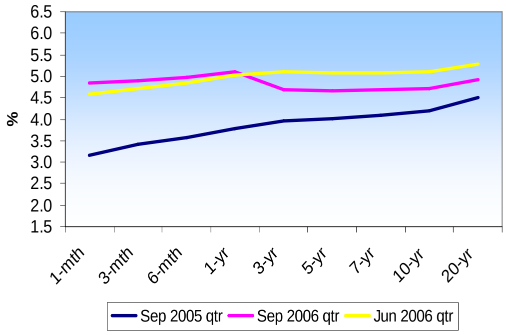
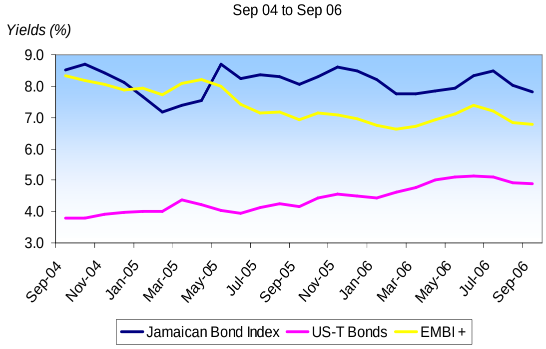


Figure 3.6
Global Bonds Yields
Sep 04 to Sep 06



increases in interest rates would negatively affect economic activity. Economic growth in the USA had moderated from 5.6 per cent in the March 2006 quarter to 2.6 per cent in the June quarter. Consensus forecasts for the September quarter suggested growth of 2.5 - 3.0 per cent.

In contrast to the monetary stance in Canada and the USA, the Bank of England (BOE), the European Central Bank (ECB) and the Bank of Japan (BoJ) raised their benchmark rates during the September 2006 quarter. Both the BOE and the ECB raised their benchmark rates by 25 bps in August to 4.75 per cent and 3.0 per cent, respectively. The BoJ adjusted its discount rate to 0.25 per cent from 0.10 per cent in July. These monetary policy adjustments were largely in response to increasing inflation pressures.

In the context of the monetary policy actions in the various countries over the quarter, interest rates in the private money markets increased. The yields on the 3-month to 1-year US Treasury Bills rose by an average of 17 bps, compared with the previous quarter. Similarly, the 3-month to 1-year London Interbank Offer Rate (LIBOR) increased by an average of 19 basis points [11].

Long-term interest rates

For longer-term securities, yields declined by an average of 11 bps during the September quarter. In particular, the yields on the benchmark 10-year US Treasury Bond declined by an average of 14 bps, relative to an increase of 50 bps during the previous quarter. This resulted in a continued flattening of the US Treasury Bonds yield curve, suggesting relatively lower long-term inflation expectations (see **Figure 3.5**).

Emerging market bonds

Emerging market bonds traded favourably during the September 2006 quarter, relative to the previous quarter. The average yield on these bonds fell by 60.6 bps to 6.8 per cent at the end of the review quarter[12]. Consequently, there was a narrowing of the spreads between the yields on emerging market bonds and US Treasuries by 37.5 bps. At end September, the spread was 1.9 per cent, the lowest in over six years. Consistent with this development, the

[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 The yield on emerging market bonds is measured by the JP Morgan Emerging Market Bond Index (EMBI+).

average yields on GOJ sovereign bonds declined by 84 bps to 7.38 per cent at the end of the quarter[13]. The spread on the GOJ sovereign bonds relative to the benchmark US 10-year Treasury Bonds was the lowest since May 2006.

Buoyant liquidity in the international capital market, as well as the expectation of a pause in the US policy tightening cycle contributed to the high demand and hence declining yields for these bonds. Confidence in GOJ sovereign bonds was also reinforced by sound macroeconomic management of the domestic economy over the course of the fiscal year, partly reflected in lower inflation and inflationary expectations.

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

4. Inflation

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

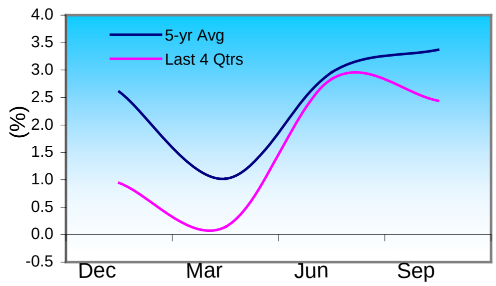


Figure 4.2
Inflation Rate
(12 Month Pt-to-Pt & Quarterly Comparison)

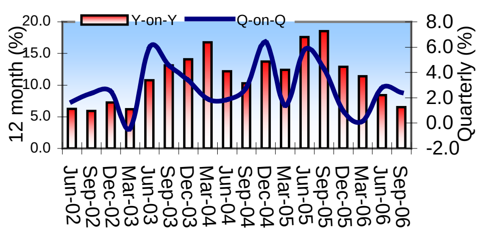
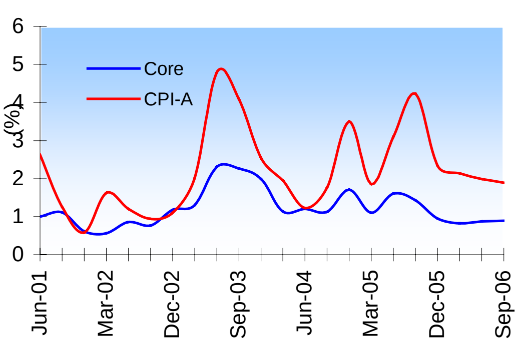


Figure 4.3
Core Inflation per Quarter



Headline inflation for the September 2006 quarter was 2.4 per cent compared to 2.8 per cent for the preceding quarter and 4.3 per cent for the September 2005 quarter. The fall in inflation was also reflected in the annual point-to-point inflation which declined to 6.5 per cent at end September from 8.4 per cent at end June. This was the lowest point-to-point outturn in three and a half years. The factors that underpinned the lower inflation were stability in the exchange rate, the containment of monetary impulses and moderate movements in agricultural prices.

Core inflation was 1.1 per cent in the quarter, in line with expectations. This brought underlying inflation to 2.0 per cent for the FYTD 2006/07 relative to 3.1 per cent for the similar period in FY 2005/06.

The All Jamaica Consumer Price Index (CPI) increased by 2.4 per cent in the review quarter, significantly below projections. This outturn was also below the average increase of 3.4 per cent for the September quarters of the last 5 years. This was a continuation of the trend observed since the December 2005 quarter, with inflation being below the seasonal average (see **Figure 4.1**).

Annual point-to-point inflation fell to 6.5 per cent at the end of September relative to 8.4 per cent at the end of June. This was 12.5 percentage points below the outturn at the end of September 2005 and the lowest 12-month change since March 2003. Inflation for the fiscal year-to-date (FYTD) was 5.3 per cent, 4.9 percentage points below the rate recorded in the comparable period in 2005. The lower than anticipated inflation was reflective of moderate impulses in agriculture, stability in the exchange rate and low underlying inflation.

Monetary Policy and Inflation

Core inflation was relatively stable at 1.1 per cent in the review quarter and compared favourably to the 1.4 per cent for the corresponding quarter of FY2005/06. For the first half of the fiscal year, core inflation was 2.0 per cent, consistent with the programme. The annual core inflation rate at end September was 3.8 per cent, relative to 6.1 per cent at end September 2005.

Figure 4.4

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

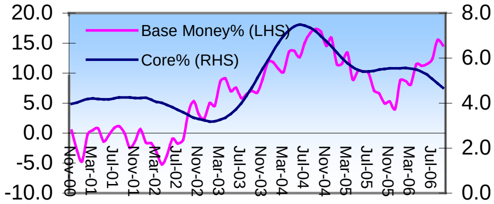
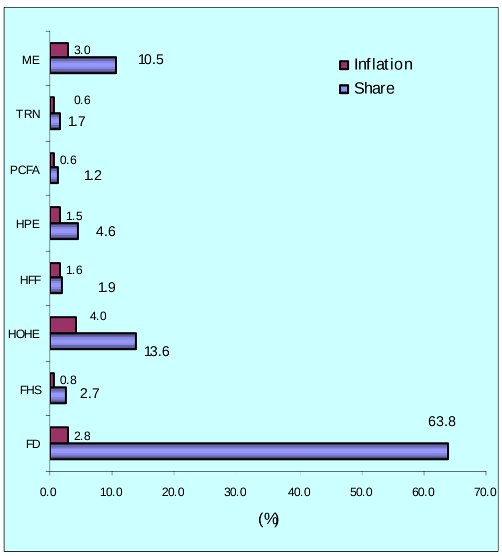


Figure 4.5

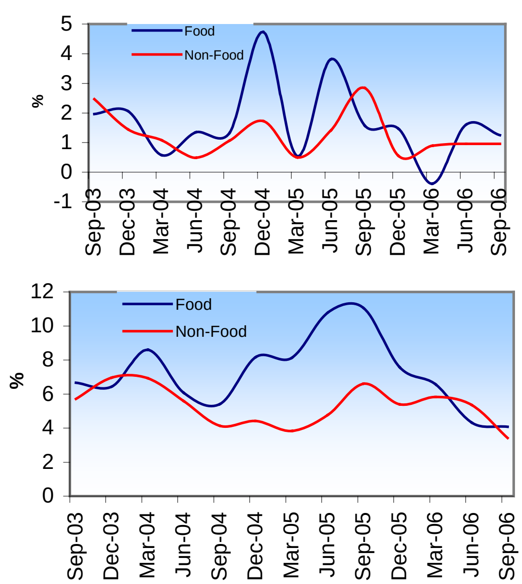
Inflation by Group



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

Figure 4.6

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



With the exception of the annual rate at end August 2006, this represented the lowest annual rate in three and a half years.

The positive trends in core inflation reflected the more conservative monetary policy posture of the Central Bank adopted between September 2005 and June 2006. This monetary policy stance resulted in a 3.1 per cent growth in base money, within the 3.9 per cent anticipated in the programme. The Bank had adopted a cautious approach in light of the possible effects of higher international commodity prices and concerns regarding potential shocks during the hurricane season, notwithstanding improvements in domestic inflation and inflation expectations.

Non-Monetary Factors

The main non-monetary factors to inflation were commodity supply constraints and lagged pass through of higher energy costs as well as seasonal price movements in school fees and implements. The impact of these factors was however, lower than expectations.

Domestic Supply Conditions

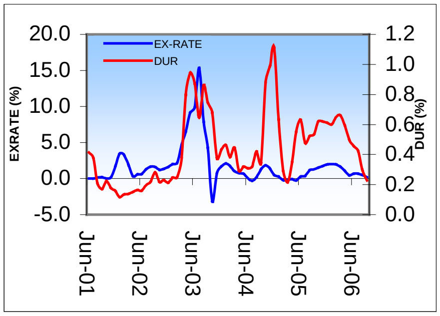
Low supply and lagged pass through of oil price changes were strong influences on higher prices for meat and fish during the quarter. The cattle industry has been in decline over the last several years and continues to be beset by challenges of high production costs (relative to poultry and pork) and by declining returns. In addition, industry officials have noted that the demand for beef has been increasing steadily since the advent of avian influenza or bird flu. Beef prices have also been strengthening on the international market. Fish prices were affected by the absence of a large producer from the fresh fish sector who has redirected its output to export markets. Rising energy prices affected the cost of processing and storage of both these commodities.

There were also seasonal shortages in some domestic produce as the price of tubers and other starchy foods increased during the quarter. Of note, increases in vegetables prices were relatively moderate when compared with previous years. As a result of the lower vegetable prices, there were generally lower price impulses relative to the previous quarter and this was reflected in the Bank's Food Index which increased in the September quarter by 1.2 per cent relative to 1.7 per cent in the June quarter.

The non-food index rose by 1.0 per cent, similar to the outturn in the June quarter. On an annual basis however, both non-food and food price inflation were lower when compared to the June quarter. Annual food inflation was 4.1 per cent at the end of September relative to 4.4 per cent at the end of June. Annual non-food inflation was 3.4 per cent relative to 5.4 per cent at the end of June (see **Figures 4.6a & b**).

Figure 4.7

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

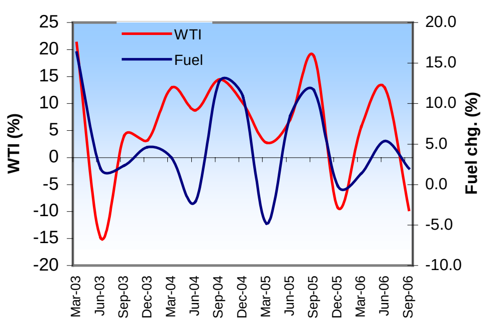


Imported Inflation

The impact of imported inflation remained constrained during the quarter. This was supported by stability in the exchange rate that moderated imported and durables prices (see **Figure 4.7**). The change in the Bank's import price index held at 4.1 per cent in the September quarter, similar to the previous quarter (see **Figure 4.9**). This performance largely emanated from offsetting influences arising from a decline in international oil prices, which lowered the Fuel Index and an increase in consumer goods and raw materials (food) indices (see **International Developments**). The decline in international oil prices was also reflected in the Fuel Index (index of energy-related prices), which had a noticeable co-movement with the changes in the benchmark West Texas Intermediate (WTI) crude oil price (see **Figure 4.8**).

Figure 4.8

Quarterly Chg. in Fuel Index & WTI



Component Contribution to Inflation

Food & Drink, *Housing & Other Housing Expenses* ***and*** *Miscellaneous Expenses* accounted for the majority of the upward impetus to prices in the review period (see **Figure 4.5**).

For the quarter, ***Food & Drink*** increased by 2.8 per cent and contributed 63.8 per cent to overall inflation. The major movements in this group emanated from *Meat, Poultry & Fish, Baked Products, Cereals & Breakfast Drinks and Starchy Foods*, which increased by 2.5 per cent, 4.5 per cent and 6.4 per cent, and contributed 17.5 per cent, 17.1 per cent and 14.8 per cent, respectively, of the quarter's inflation. The increase in *Meat, Poultry & Fish* stemmed from further upward movements in the prices of beef and fish. Increases in the cost of wheat and the consequent pass-through to flour, bread and other baked products affected *Baked Products, Cereals & Breakfast Drinks*. Higher energy charges also affected the production process. Starchy Foods was affected by tightness in local agricultural commodity supplies, which caused increases in the prices of yellow yam, lucea yam, sweet potato and plantain.

Figure 4.9

Import Price Index and Inflation

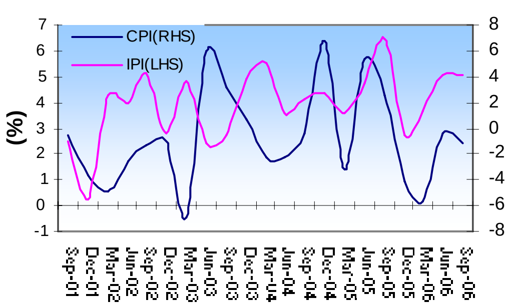


Figure 4.10
Average WTI Crude price (US$) per barrel

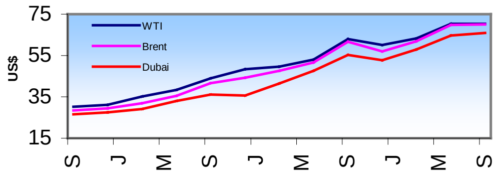
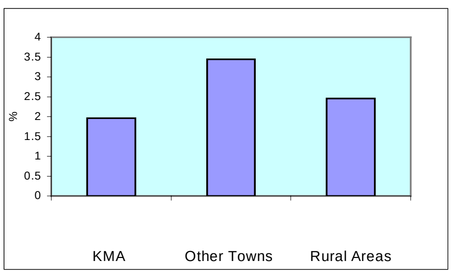


Figure 4.11
Geographical Distribution of Inflation



During the September quarter, the fuel charge component of electricity rates increased by 15.7 per cent driven by a sharp 20.6 per cent adjustment in July, which reflected the lagged response to increases in international crude oil prices in the June quarter. Additionally, there were adjustments to the non-tariff rates which were increased by an average of 5.6 per cent. These changes culminated in an increase of 8.9 per cent in the cost of electricity during the quarter. Consequently, ***Other Housing Expenses*** increased by 4.3 per cent and contributed 10.9 per cent to the quarter's inflation. With a slight impetus from rental rates, ***Housing & Other Housing*** Expenses rose by 4.0 per cent and accounted for 13.6 per cent of inflation in the quarter.

*Miscellaneous Expenses***,** which increased 3.0 per cent and contributed 10.5 per cent to inflation, was mainly affected by seasonal increases in school fees and the cost of school books and implements. Respective increases of approximately 7.0 per cent and 2.0 per cent in tuition fees and the cost of school books were observed during the quarter. However, these seasonal impulses were less than in recent years. There were also increases in the cost of newsprint and the cost of admission to plays.

Regional Inflation

There was significant disparity in the inflation outturn across the three regions. While the indices of the Kingston Metropolitan Area (KMA) and Rural Areas rose by 2.0 per cent and 2.5 per cent, respectively, the index of the Other Towns rose by 3.4 per cent. This disparity was largely reflected in the movements in Food & Drink. For the September quarter, this group increased by 4.7 per cent in the Other Towns, while the KMA and Rural Areas had respective increases of 1.5 per cent and 3.1 per cent. This was influenced mainly by more significant increases in the prices of Starchy Foods. The sharper increase in the Other Towns was likely related to correction of price differentials as prices of agricultural products were significantly below those of the other regions.

Box 2: *The Special (Upper Income) Consumer Price Index*

Introduction

In addition to the Consumer Price Index (CPI), the Statistical Institute of Jamaica produces an Upper Income Consumer Price Index (UI-CPI). This index represents patterns of expenditure of households whose expenditure was in excess of $24,000 per annum in 1984, whereas the Consumer Price Index represents patterns of expenditure of households whose expenditure was $24,000 or less per annum during the same period. At current prices, $24,000 per annum in 1984 is equivalent to $580 756.32 per annum.

Table 1:	*CPI*	*UI-CPI*
All Groups	100.00	100.00
Food & Drink	55.63	35.96
Fuels & Other HS	7.35	5.68
Housing & OHE	7.86	18.57
Household Fur & Furniture	2.83	6.49
Healthcare & PE	6.97	9.06
Personal Clothing	5.07	3.83
Transportation	6.44	11.54
Misc. Exp	7.85	8.87

Composition and Weights

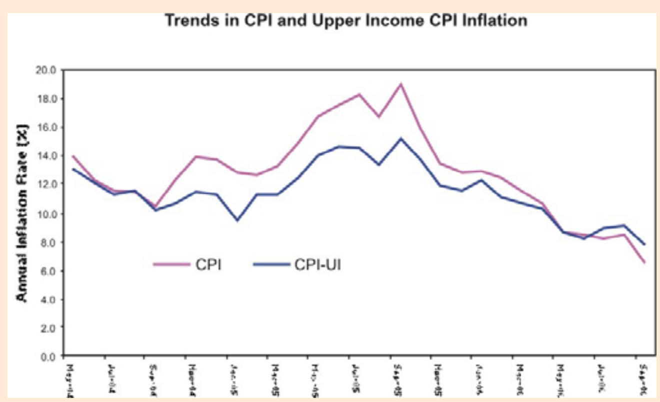
Given the differing income levels underlying the two indices, expenditure patterns of the two sets of consumers differ. This is manifested in the composition and weights of the CPI and the UI-CPI. The goods and services in the UI-CPI comprise all the items in the CPI plus additional ones based on the expenditure patterns. Some of these include items such as cheese, oxtail, T-bone steak, ice cream, carbonated beverages, furniture polish, hotel accommodation, aluminium foil, bowl cleaner and paper napkins.

With respect to the weights, the Food & Drink group for example, accounts for a lower proportion of expenditure in the UI-CPI than in the CPI (see **Table 1**). This is consistent with economic theory which states that at higher levels of income there are lower propensities to consume *normal* (or basic) goods, which would dominate the Food & Drink group. The weight for housing related expenditure is the second largest for both groups but the proportion in the UI-CPI more than doubles that of the CPI.

Trends in the UI-CPI

Between September 2004 and September 2005, there were significant price shocks which resulted in inflation from the CPI being higher than the UI-CPI. This disparity was largely related to the stronger weights of the volatile agricultural sub-groups which are usually responsible for sharp swings in the CPI. However, since September 2005, there have been steady declines in the rate of inflation from both indices. At the end of the fiscal year 2004/05, CPI inflation was 13.2 per cent compared to a UI-CPI inflation of 11.2 per cent. For FY 2005/06, the pattern was similar with CPI inflation at 11.4 per cent relative to 10.6 per cent for the UI-CPI. For the FYTD 2006/07, UI-CPI inflation was 4.8 per cent relative to 5.3 per cent for the CPI.

Figure 1



5. Economic Outlook and Monetary Policy Perspectives

Table 5.1

Jamaica: Selected Economic Indicators

	Projections for Dec'06 Quarter	*Projections for FY06/07*	*Target for FY06/07*
Inflation (% change)	1.5 – 2.5	8.5 – 9.5	9.0 – 10.0
Base Money (% change)	19.1	11.5	11.7
NIR End Period (US$mn)	2253.1	2229.8	2100.0
GDP (12-mth % chg.)	+ve	3.0 – 4.0	3.0 – 4.0

The positive macroeconomic trends observed in the September 2006 quarter are expected to continue in the December quarter. This outlook is predicated on continued global growth and stable domestic financial markets. Growth in the Jamaican economy is expected in both the goods and services sectors, particularly mining, basic services and tourism. Inflation is expected to moderate relative to the previous quarter with improvement in the supplies of some agriculture commodities, further decline in crude oil prices and continued stability in the exchange rate. The major risk to the outlook is a shift in investor confidence consequent on changes in the domestic and external environment, including a reversal of the trend in international oil prices.

Outlook - December 2006 Quarter

Real Sector

The growth momentum in the Jamaican economy is expected to continue in the December 2006 quarter, following average economic growth of approximately 2.7 per cent over the previous five quarters. Despite some moderation in world growth, the Jamaican economy should continue to benefit from a favourable international environment. In this context, continued buoyant demand for Jamaica's exports, particularly services, are anticipated. In addition, low inflation expectations and continued stability in domestic financial markets should further improve business confidence and stimulate demand for increased private sector credit.

Economic growth is anticipated in both the goods and the services sectors. However, stronger growth is anticipated for the goods sector reflected mainly in ***Mining*** and ***Construction***. The outlook for ***Mining*** is predicated on projected expansions of 16.0 per cent and 12.0 per cent in bauxite and alumina production, respectively. The favourable performance projected for ***Mining*** is based largely on recovery as bauxite and alumina production was disrupted by industrial disputes in the December 2005 quarter. ***Construction*** is expected to reflect strong growth given the normalization of supplies of construction materials, particularly cement. Favourable weather conditions, improved farming techniques and recent Government initiatives to provide funding should boost production in ***Agriculture.*** The growth in the goods sector, however, will be constrained by continuing declines in ***Manufacturing*** due to the impact of the fallout in the tobacco industry.

The services sector of the economy is expected to grow chiefly due to anticipated expansion in ***Miscellaneous Services*** and ***Basic Service***. ***Miscellaneous Services*** should continue to exhibit strong growth in the December quarter through an expansion in its major component, hotels, restaurants and clubs, consistent with recent trends. This forecast is based on an anticipated increase in visitor arrivals of 20.5 per cent, when compared to the December 2005 quarter. The projected strong increase in arrivals is largely due to cruise passenger visitors. Tourism is expected to benefit from additional room capacity, increased airlift and advertising relative to last year. Growth in this sector is anticipated to have a positive effect on ***Transportation***.

Inflation

Inflation in the December 2006 quarter is expected to moderate relative to the September 2006 quarter. Monetary impulses to inflation will remain benign and the relative stability in the foreign market should persist in the December 2006 quarter. In this context, inflationary expectations should dampen. Additionally, inflationary impulses from supply constraints will continue to moderate. However, there are inflationary impulses expected from some imported prices and seasonal demand for goods and services associated with the Christmas holidays.

Monetary influences on inflation for the quarter are expected to result in core inflation of approximately 1.0 per cent. This is anticipated despite the higher than programmed increase in base money in the previous quarter (see **Base Money and Monetary Policy Developments**) as the deviation was due to higher than normal currency issue, most of which was due to a temporary increase in transaction demand on the last two days of September. Throughout the quarter the excess currency issue was mainly held in vaults of the commercial banks and therefore not inflationary.

Stability in the foreign exchange market in the December quarter will be underpinned by continued robust growth in receipts from tourism and remittances. However, there should be some normalization in net private capital inflows over the quarter, relative to the September 2006 quarter. With respect to payments, the current projected path of oil price implies a tempering in the associated demand for foreign currency from this source. However, the seasonal increase in demand to finance consumer imports is expected. In this context, the Bank's reserves are adequate to address any temporary imbalance that may arise.

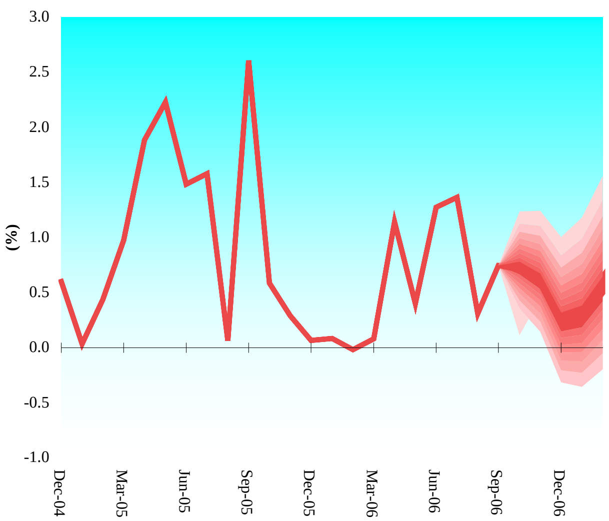
In addition to the protracted period of a stable monetary and financial environment, a survey was commissioned by the Bank which reaffirmed a decline in inflation expectations. The survey on inflation expectations in September 2006 revealed that the inflation expectation index[14] declined by 3.0 per cent and 27.0 per cent, respectively, relative to the measures in June and February.

Price movements in the world commodities market should have mixed influences on domestic prices in the December 2006 quarter. Increases in the price of grains such as corn, wheat and rice in the previous quarter are anticipated to continue in the December quarter. The Baked Products, Cereals & Breakfast Drinks and the Meat, Poultry & Fish components of the Food & Drink subcategory of the CPI are expected to reflect these impulses.

Since August 2006, there has been a noticeable decline in crude oil prices which is expected to continue in the December quarter. Specifically, crude oil prices are expected to reflect a seasonal decline of approximately 7.0 per cent in the quarter. This is in a context of high inventories in the USA, lessening geo-political tensions and reduced concerns regarding OPEC production cuts. The lower crude oil price should have a downward effect on the prices of energy related commodities over the December quarter. More specifically, it is anticipated that inflationary pressures in the Transportation, Fuels & Other Housing Expenses subgroup will be moderated.

The seasonally higher consumption pattern associated with the December quarter could result in higher prices for commodities in the Healthcare & Personal Expenses, Household Furniture & Furnishing and Household and Other Housing Expenses sub-categories. Most of the items which are consumed at a greater level during the Christmas season tend to have a high import content. However, it is expected that the relatively stable foreign exchange market condition that persisted over the September quarter should have a moderating effect on the price

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.

[14] By way of surveys, the Bank of Jamaica monitors business expectations of inflation among other macroeconomic variables. The responses are used to create indices that assist policymakers in tracking expectations over time.

setting process during the December quarter.

Monetary Policy

Given the above factors, headline inflation for the December 2006 quarter is projected in the range of **1.5 per cent** to **2.5 per cent.** Correspondingly, inflation for the calendar year 2006 is projected in the range of **7.0 per cent to 8.0 per cent** compared to 12.9 per cent in 2005. For the fiscal year, inflation is projected to be in line with the programmed target of **9.0 per cent**.

The monetary programme for the December 2006 quarter will target an increase in base money of 19.1 per cent consistent with a seasonal increase in the demand for currency during the quarter. The target is informed by the objective of single digit inflation and the projected expansion in economic activities. It is expected that the monetary target will be comfortably met as the Bank's current interest rate structure provides for a reasonable level of real returns (above the average of the last two years) on open market instruments. The positive fiscal performance and Government's cash management will provide support for monetary policy objective.

In the context of the above scenario, there should be continued moderation in inflation, thereby providing the basis for further easing of monetary policy in the medium term. The main risks to this outlook remain the possibility of a severe hurricane, a reversal in the downward trends of crude oil prices on the international market and tightening in emerging bond markets. Given the monetary targets, the Bank's policy stance in the short-term will be conditioned on how the balance of these risks evolves during the December 2006 quarter.

BOX 3: *Jamaica**: Interim Staff Report Under Intensified Surveillance*[15] *- Executive Summary***

Background

At the request of the Jamaican authorities, the International Monetary Fund (Fund) staff regularly monitors the design and implementation of Jamaica's economic programme. This includes the monitoring of its medium-term strategy to reduce the public debt from about 144 per cent of GDP to around 100 per cent of GDP by 2009 through fiscal consolidation. This monitoring, which was agreed between the authorities and the Executive Board, takes the form of an intensified surveillance programme (ISP). Under the ISP, interim staff reports are issued for information to the Board between comprehensive Article IV consultations. The most recent ISP was concluded on March 24, 2006.

Executive Summary

The report indicated that the economy is making a gradual recovery from shocks. Starting in late 2004, real GDP was adversely affected by natural disasters while inflation increased sharply, reflecting higher agriculture prices and larger oil import costs. During the fourth quarter of 2005, however, real GDP grew by 2.4 per cent, boosting growth for the calendar year to 1.4 percent, up from 0.9 per cent in 2004. Headline inflation stood at 8.5 per cent in May 2006, compared to 19 per cent in September 2005.

It was noted that progress is being made in reducing high debt, albeit at a slower pace than envisaged earlier, due in part to, wider-than-anticipated budget deficits as well as slower growth. The Public debt was estimated to have fallen from 144 per cent at the end of FY 2003/04 to about 133 per cent at the end of the FY 2005/06. The latter included about 2.5 per cent of GDP in pre-financing for FY 2006/07. The report noted however, that budget outcomes for the past two fiscal years have not met expectations, including that of balancing the budget in FY 2005/06 mainly on account of lower-than-anticipated revenue collections.

The report indicated that the budget for FY 2006/07 envisages an overall fiscal deficit of 2.7 per cent of GDP on the basis of a targeted primary surplus of 10.1 per cent of GDP, down from 11 per cent of GDP in FY 2005/06. In view of the high debt, the Fund team viewed the recovering economy as providing an opportunity to aim for a more ambitious fiscal objective. The Fund suggested taking both revenue and expenditure measures. However, the report took note of the fact that the authorities pointed out that by international standards, Jamaica's primary surplus remains extraordinarily high and that the important point was that the overall deficit was expected to continue to improve, by close to 1 per cent of GDP relative to the FY 2005/06 outturn.

It was noted in the report that achieving the budget objective hinges on the authorities' tax administration efforts. Accordingly, The authorities have adopted an active and aggressive strategy to widen the tax base and strengthen the underlying fiscal position by improving tax administration. While commending the direction and preliminary results of these efforts, the Fund cautioned that expectations that the efforts would yield 2.5 per cent of GDP may be optimistic.

In conclusion, the report noted that Structural reforms will remain key to guarding against erosion by off-budget entities of the gains made in the budget. In this context, the authorities' commitments to fiscal discipline by public entities and reform of loss making enterprises will have an important bearing on Jamaica's debt dynamics.

[15] **Jamaica: Interim Staff Report Under Intensified Surveillance**, Prepared by the Western Hemisphere Department (In consultation with other departments)
Approved by Caroline Atkinson and Matthew Fisher, July 31, 2006 IMF Country Report No. 06/324
Copies of this report are available to the public from International Monetary Fund • Publication Services, 700 19th Street, N.W. • Washington, D.C. 20431, Telephone: (202) 623-7430 • Telefax: (202) 623-7201,E-mail: publications@imf.org Internet: http://www.imf.org, Price: $15.00 a copy
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Washington, D.C.

Appendices

A. Fiscal Developments: July to September 2006

Provisional data for the September 2006 quarter indicate that Central Government operations generated a deficit of $8 380.0 million, 1.2 per cent of GDP, relative to the budgeted deficit of $10 874.9 million or 1.6 per cent of GDP. The lower than targeted deficit resulted from containment in expenditure, the impact of which was partly offset by lower than targeted revenues. The primary surplus was 1.9 per cent of GDP, higher than the targeted surplus of 1.5 per cent, reflecting the lower than budgeted non-interest expenditure. Concurrently, the current deficit was 0.7 per cent, relative to the targeted 0.4 per cent (see table).

Total expenditure for the September quarter was 8.8 per cent below budget, largely reflecting containment in capital expenditure. Expenditure on capital programmes was 51.3 per cent below budget partly due to delays in the implementation of projects planned for the quarter. Recurrent expenditure was marginally below target, reflecting delays in some wage settlements.

Revenues were 5.9 per cent lower than target for the quarter reflecting a 7.2 per cent shortfall in tax revenues. The deviation was largely reflected in Income and Profit in a context where tax refunds were made to holders of pension funds. On the other hand, non-tax revenue was 25.0 per cent above budget.

For the first half of the fiscal year, the deficit was $16 634.4 million or 2.4 per cent of GDP. This was $4 370.1 million below budget, reflecting lower than targeted expenditure, which was partly offset by a shortfall in revenue. The primary surplus was 4.2 per cent of GDP, comparing favourably to the target of 3.5 per cent. The current deficit of 1.3 per cent of GDP, was however slightly higher than the target of 1.1 per cent.

Expenditure for the first two quarters of the fiscal year was 5.8 per cent lower than target, largely reflecting containment in capital expenditure in the second quarter. Recurrent expenditure was broadly in line with target reflecting higher domestic interest payments and expenditure on programmes, partly offset by lower than targeted wage payments.

Revenue for the first half of the fiscal year was 2.7 per cent below budget, due to the performance in the second quarter. In this regard, tax revenue was 3.0 per cent below budget, largely reflecting a shortfall in receipts from Production and Consumption, as well as lower than expected receipts from Income and Profits. Concurrently, grants and capital revenue were 52.4 per cent and 42.2 per cent below target, respectively. Grants reflected delays in the receipt of flows from the European Union (EU) in the first quarter. Non-tax revenue was 28.3 per cent above target, reflecting the strong performance of the 2.0 per cent Customs User Fee on imports.

For the period April to September 2006, Government financed the deficit and amortised domestic debt from local sources and funded foreign debt payments from the proceeds of the Eurobond raised in February 2006. Government relied mainly on variable rate long-term instruments to finance its needs. In this regard 66.8 per cent of instruments issued where variable rate instruments and the weighted average age of debt issued during the period was 10.4 years.

Fiscal Performance
Comparative Analysis
J$ Million

	FY 2006/07 Q2	Budget Q2	Variance	FY 2006/07 Q1+Q2	Budget Q1+Q2	Variance
Revenue and Grants	**48670.5**	**51695.0**	**-3024.5**	**97306.4**	**99981.1**	**-2674.7**
Tax Revenue	42660.9	45962.3	-3301.4	87005.0	89657.8	-2652.8
Non-tax Revenue	3560.6	2849.3	711.4	6429.0	5011.1	1418.0
Bauxite Levy	988.3	969.9	18.4	2072.2	1934.8	137.4
Capital Revenue	943.8	1363.8	-420.0	1089.5	1883.5	-794.0
Grants	516.8	549.8	-33.0	710.7	1494.0	-783.3
Expenditure	**57050.4**	**62569.9**	**-5519.5**	**113940.8**	**120985.6**	**-7044.8**
Recurrent Expenditure	52592.6	53419.5	-826.8	105056.1	105681.1	-624.9
Programmes	13004.3	13372.2	-368.0	23016.9	23469.0	-452.2
Wages & Salaries	18272.3	19082.3	-810.1	35812.1	37003.3	-1191.3
Interest	21316.1	20964.9	351.2	46227.2	45208.7	1018.5
Capital Expenditure	4457.8	9150.4	-4692.6	8884.7	15304.5	-6419.8
Fiscal Balance	**-8380.0**	**-10874.9**	**2494.9**	**-16634.4**	**-21004.5**	**4370.1**
Memo						
Current Balance	**-4866.0**	**-3088.2**	**-1777.8**	**-8839.2**	**-7583.4**	**-1255.8**
Primary Balance	**12936.1**	**10090.0**	**2846.1**	**29592.8**	**24204.2**	**5388.6**

Performance Indicators
(percentages of GDP)

	Q2	Budget Q2	Q1+Q2	Budget Q1+Q2
BR	1.20	1.56	2.38	3.01
CB	-0.70	-0.44	-1.27	-1.09
PB	1.85	1.45	4.24	3.47
IP	3.05	3.00	6.62	6.48
FSR	-1.17	-1.21	-1.17	-1.21

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.
18/04/06	The Bank suspended the acceptance of placements on its open market operations (OMO) instruments with tenors of 270 days and 365 days, until further advised. The OMO instruments, along with corresponding interest rates, that remained on offer were 30-days: 12.6 per cent; 60-days: 12.70 per cent; 90-days: 12.75 per cent; 120-days: 12.85 per cent; and 180-days: 13.00 per cent.

01/05/06	The Bank removed the requirement that deposit-taking institutions must hold some portion of their assets as a Special Deposit with the Central Bank. This requirement was introduced in January 2003 to stabilize the financial markets. The initial deposit requirement was set at 5 per cent of prescribed liabilities and this was reduced to 1 per cent in two steps between February and May 2005. The significant improvement in macroeconomic conditions and the positive outlook for fiscal year 2006/07 allowed for the return of the remaining deposits. The sum due to financial institutions as at 28 April 2006 was J$1 564.1 million.
12/05/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.45 per cent, 12.50 per cent, 12.60 per cent, 12.65 per cent and 12.80 per cent, respectively.
01/09/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.15 per cent, 12.2 per cent, 12.30 per cent, 12.35 per cent and 12.50 per cent, respectively.
22/09/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 11.95 per cent, 12.00 per cent, 12.10 per cent, 12.15 per cent and 12.30 per cent, respectively.

LIST OF SUMMARY TABLES

C. Summary Tables

1

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

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
July - Sept 2006

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	**0.5563**	**2.8**	**63.8**
- Meals Away From Home	0.0741	1.5	5.0
- Meat Poultry & Fish	0.1613	2.5	17.5
- Dairy Products Oils & Fats	0.0668	1.3	3.9
- Baked Products Cereals &Breakfast Drinks	0.0864	4.5	17.1
- Starchy Foods	0.0525	6.4	14.8
- Vegetables & Fruits	0.0650	0.6	1.6
- Other Food & Beverages	0.0502	1.7	3.8
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**0.8**	**2.7**
- Household Supplies	0.0482	0.9	2.0
- Fuels	0.0253	0.7	0.7
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**4.0**	**13.6**
- Rental	0.0209	3.0	2.8
- Other Housing Expenses	0.0577	4.3	10.9
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**1.6**	**1.9**
- Furniture	0.0068	1.9	0.6
- Furnishings	0.0215	1.4	1.3
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.5**	**4.6**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.6**	**1.2**
- Clothing Materials	0.0055	0.5	0.1
- Readymade Clothing & Accessories	0.0242	0.4	0.5
- Footwear	0.0159	0.7	0.5
- Making & Repairs	0.0051	0.6	0.1
TRANSPORTATION	**0.0644**	**0.6**	**1.7**
MISCELLANEOUS EXPENSES	**0.0785**	**3.0**	**10.5**
ALL GROUPS	**1.0000**	**2.4**	**100.0**

2B

REGIONAL INFLATION
Quarterly
July – Sept 2006

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**1.5**	**4.7**	**3.1**
- Meals Away From Home	1.3	1.3	2.1
- Meat Poultry & Fish	2.2	3.1	2.3
- Dairy Products Oils & Fats	0.6	2.3	1.7
- Baked Products Cereals &Breakfast Drinks	4.5	5.2	4.1
- Starchy Foods	1.8	16.0	5.5
- Vegetables & Fruits	-2.4	5.2	1.5
- Other Food & Beverages	0.3	2.9	2.6
FUELS & OTHER HOUSEHOLD SUPPLIES	**1.0**	**0.5**	**0.6**
- Household Supplies	0.7	1.7	0.7
- Fuels	1.2	-0.2	0.5
HOUSING & OTHER HOUSING EXPENSES	**4.0**	**4.0**	**4.0**
- Rental	3.5	0.6	0.6
- Other Housing Expenses	4.3	4.4	4.3
HOUSEHOLD FURNISHINGS & FURNITURE	**1.4**	**2.1**	**1.4**
- Furniture	1.8	1.7	2.2
- Furnishings	1.1	2.3	1.0
HEALTHCARE & PERSONAL EXPENSES	**2.0**	**1.3**	**0.8**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.2**	**1.9**	**0.2**
- Clothing Materials	0.4	1.2	0.5
- Readymade Clothing & Accessories	0.3	0.9	0.3
- Footwear	0.1	2.9	0.0
- Making & Repairs	0.0	2.9	0.0
TRANSPORTATION	**0.7**	**-0.1**	**0.8**
MISCELLANEOUS EXPENSES	**3.4**	**3.1**	**2.2**
ALL GROUPS	**2.0**	**3.4**	**2.5**

3

BANK OF JAMAICA OPERATING TARGETS

	Mar-05	Jun-05	Sept-05	Dec-05	Mar-06	Jun-06	Sept-06
Net International Reserves (US$)	**1 901.6**	**2 156.8**	**2 119.0**	**2 087.4**	**2 078.1**	**2 110.1**	**2 342.0**
Net International Reserves ($J)	**117 899.8**	**133 721.6**	**131 376.1**	**136 120.7**	**135 515.2**	**138 862.3**	**155 486.0**
- Assets	119 294.8	135 116.6	139 063.5	141 443.1	154 736.5	150 915.4	164 296.7
- Liabilities	-1395.0	-1 395.0	-7 687.4	-5 322.4	-19 221.3	-12 053.1	- 8 810.7
Net Domestic Assets	**-76 253.0**	**-93 641.6**	**-91 001.9**	**-86 703.0**	**-91 907.4**	**-93 911.6**	**-108 165.8**
-Net Claims on the Public Sector	96 076.3	99 507.6	103 491.4	96 607.0	99 001.8	98 961.5	93 207.9
- Net Credit to Banks	-12 629.7	-9 784.6	-10 289.3	-10 871.7	-10 906.7	-9 322.7	-9 886.1
- Open Market Operations	-143 854.8	-167 485.1	-168 108.2	-149 806.5	-157 357.6	-159 438.0	-166 018.9
- Other	-15 844.8	-15 879.5	-16 095.8	-22 631.8	-22 644.9	-24 112.3	-25 468.8
Monetary Base	**41 646.8**	**40 080.0**	**40 374.2**	**49 417.7**	**43 607.8**	**44 950.6**	**47 320.2**
- Currency Issue *	28 674.9	26 995.0	27 401.5	35 644.5	29 714.4	30 734.4	32 143.4
- Cash Reserve	12 696.2	12 957.2	12 937.6	13 125.8	13 685.2	14 093.2	14 907.8
- Current Account	275.7	127.8	35.1	647.4	208.2	123.0	269.0
% change Monetary Base (F-Y-T-D)	**15.1**	**-3.8**	**-3.1**	**18.7**	**4.7**	**3.1**	**8.5**

** Excludes BOJ's teller cash*

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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
2006/2007						
June	61 908.1	71 897.4	159 153.6	232 227.4	208 718.0	281 791.8
September	64 668.9	73 233.3	162 466.8	234 331.2	214 812.8	286 677.2

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)

	Dec-04 r	Mar-05 r	Jun-05 r	Sep-05	Dec-05	Mar-06	Jun-06r	Sep-06p
M2J	**11 124.8**	**-2 059.2**	**2 630.8**	**1 318.8**	**11 818.0**	**-1 630.0**	**5 535.6**	**3 313.2**
Currency	4 483.3	-3 108.7	-574.0	1 119.6	5 549.5	-3 435.3	1 285.3	966.9
Demand Deposits	1 815.1	456.8	910.4	-972.3	3 933.5	-519.7	2 005.1	1 793.9
Savings Deposits	2 739.5	-105.1	1 579.0	111.6	3 505.2	296.3	2 951.0	1 288.2
Time Deposits	2 086.9	697.8	715.4	1 059.9	-1 170.2	2 028.8	- 705.8	-735.8
OTHER DEPOSITS	**1 631.0**	**-201.1**	**2 690.0**	**1 844.9**	**465.5**	**3 897.3**	**377.8**	**2 781.5**
TOTAL (M3J)	**12 755.8**	**-2 260.3**	**5 320.8**	**3 163.7**	**12 283.4**	**2 267.4**	**5 913.4**	**6 094.7**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Dec-04 r	Mar-05 r	Jun-05 r	Sep-05	Dec-05	Mar-06	Jun-06r	Sep-06p
N.I.R. of B.O.J.	**15 100.7**	**2 666.0**	**15 788.6**	**-2 277.0**	**-1 952.9**	**-605.5**	**2 100.0**	**15 400.2**
M&LTFL of B.O.J	**12.0**	**0.0**	**11.7**	**0.0**	**44.7**	**65.4**	**0.0**	**0.0**
Banking System Credit	**-10 580.7**	**913.5**	**18 620.4**	**5 566.3**	**-3 193.7**	**3 169.6**	**3 712.2**	**-3 830.6**
Public Sector	-11 009.8	-1 164.3	15 559.3	3 864.9	-5 333.0	-259.6	276.5	-8 806.9
Private Sector	429.1	2 077.8	3 061.1	1 701.4	2 139.3	3 429.2	3 435.7	4 976.3
Open Market Operations	**-3 062.8**	**-13 162.8**	**-23 658.2**	**-595.1**	**18 301.7**	**-7 551.1**	**-2 080.4**	**- 6580.9**
Other	**11 286.6**	**7 323.0**	**-5 441.7**	**469.5**	**-916.4**	**7 189.0**	**2 181.6**	**1 106.0**
TOTAL	**12 755.8**	**- 2 260.3**	**5 320.8**	**3 163.7**	**1 2 283.4**	**2 267.4**	**5 913.4**	**6 094.7**
Memo:								
Foreign Currency Deposits (Private Sector)	633.6	210.1	-181.3	3 129.6	21.8	1 834.2	-1 833.1	-1 209.3
Foreign Currency Loans (Private Sector)	3 367.5	1 594.9	-2 901.0	3 389.6	3 754.3	-715.3	2 801.9	478.0

preliminary

r-revised

6A

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

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

**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*
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	
2005/2006				
June	12.85	12.88		
September	12.96	13.15		
December	13.34	13.55		
March	13.16	13.18		
2006/2007				
June	12.64	12.82		
September	12.44	12.49		

7

BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenor of Instruments

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

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

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
July – September 2006

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
04 July	FR LRS 2006 AG	2 000.0	26.125
07 July	VR LRS 2006/2007 C	100.0	14.93
15 July	FR LRS 2011 B (Tr. E)	46.8	15.0
21 July	FR LRS 2007 (Tr. 1)	500.0	17.1
27 July	GOJ FR Inv. Deb. 2006 Ser. “Ac”	6 297.3	24.625
28 July	FR US$ Ind. Bond 2006	3.1	11.0
31 July	FR LRS 2006 H	500.0	23.875
15 August	VR LRS 2006/2007	300.0	13.3
25 August	GOJ FR Inv. Deb. 2006 Ser. “Ap”	5 949.0	16.575
28 August	FR LRS 2006	500.0	16.25
31 August	FR Reg. Bond 2006 Ser. “C”	583.7	16.85
06 September	VR LRS 2006	2 827.9	17.22
08 September	VR Inv. Bond 2006/2007	2 001.3	14.34
15 September	FR LRS 2006	737.7	16.25
29 September	FR LRS 2007 E (Tr. E)	28.1	10.0

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

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
July – September 2006

Issue Date	Stock Name	Features	Amount Raised J$M
4-6 July	*VR Investment Debenture 2018/2019 Series "Ab*	*Tenor of 12 years. Interest rate fixed at12.82% for first 6 months. Thereafter semi-annual payments of 1.625 above 6-month WATBY.*	*$7 345.0*
19 – 21 July	*FR Investment Debenture 2008 Series "Au"*	*Tenor of 24 months. Interest rate fixed at 12.875%. Interest payable three months after issue. Thereafter interest paid quarterly.*	*$567.0*
26 – 28 July	*VR Investment Bond 2022/2023 Series "Ac"*	*Tenor of 16 years. Interest rate fixed at12.82% for first 6 months. Thereafter semi-annual payments of 1.625 above 6-month WATBY.*	*$2 201.5*
10 – 12 August	*VR Investment Bond 2026/27 Series "Ad"*	*Tenor of 20 years. Interest rate fixed at12.81% for first 6 months. Thereafter semi-annual payments of 1.625 above 6-month WATBY.*	*$1 880.07*
16 - 18 August	*VR Investment Bond 2014/2015 Series "Ae"*	*Tenor o f8 years. Interest rate fixed at12.81% for first 6 months. Thereafter semi-annual payments of 1.50% above 6-month WATBY.*	*$6 108.14*
24 – 28 August	*FR Investment Debenture 2008 Series "Az"*	*Tenor of 24 months. Interest rate fixed at 12.875%. Interest payable three months after issue. Thereafter interest paid quarterly.*	*$2 025.1*
30 – 31 August	*FR LRS 2013 AG*	*Tenor of 7 years. Interest rate fixed at 13.375%. Interest paid on 28 February and 31 August.*	*$500.0*
8 – 12 September	*VR Investment Bond 2018/2019 Series "Af"*	*Tenor of 12 years. Interest rate fixed at12.6% for first36 months. Thereafter Quarterly payments of 1.575% above 3-month WATBY.*	*$8 839.0*
27 September	*FR LRS 2014 AH*	*Tenor of 8 years. Interest rate fixed at 13.25%*	*$1 000.0*
	Fr LRS 2020 AA	*Tenor of 14 years. Interest rate fixed at 13.50%*	*$750.0*

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
2003/2004 [r]	**92.3**	**726.0**	**82.9**	**18.6**	**65.7**	**250.9**	**231.0**	**1 467.4**
June	24.1	166.0	28.9	5.0	17.6	52.4	52.0	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	60.2	365.8
December	21.0	176.7	1.1	4.6	12.6	60.4	63.2	339.6
March	24.1	200.1	42.5	4.6	17.0	72.1	55.6	416.0
2004/2005 [r]	**82.1**	**825.0**	**87.0**	**8.2**	**74.2**	**272.6**	**216.3**	**1 565.4**
June	25.4	202.8	47.9	4.3	19.2	77.3	55.8	432.7
September	22.3	173.8	7.7	3.9	20.3	59.9	66.7	354.6
December	8.6	237.8	0.0	0.0	19.6	74.1	58.2	398.3
March	25.8	210.6	31.4	0.0	15.1	61.3	37.0	381.2
2005/2006	100.6	950.4	89.4	7.7	65.3	418.1	169.7	1 801.2
June	22.6	245.2	41.5	2.1	17.2	61.9	48.6	439.1
September	24.8	233.3	3.8	1.3	18.2	106.8	38.9	427.1
December	25.7	231.1	0.0	1.3	9.0	111.6	38.2	416.9
March [P]	27.5	240.8	44.1	3.0	20.9	137.8	44.0	518.1
2006/2007								
June [p]	29.5	248.1	43.0	3.2	25.0	144.8	41.9	535.5

r-revised; p-preliminary

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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)

	Sep-04[r]	Dec-04	Mar-05[r]	Jun-05[p]	Sep-05[r]	Dec-05[p]	Mar-06[p]
1. Current Account	**-226.8**	**-191.2**	**-168.7**	**-294.2**	**-355.2**	**-260.6**	**-232.3**
A. Goods Balance	**-531.1**	**-597.5**	**-601.2**	**-622.0**	**-700.3**	**-657.8**	**-702.7**
Exports (f.o.b.)	354.6	398.3	381.2	439.1	427.1	416.9	**518.1**
Imports (f.o.b.)	885.7	995.8	982.4	1 061.1	1 127.5	1 074.7	**1 220.8**
B. Services Balance	**100.7**	**108.7**	**200.8**	**141.2**	**108.1**	**150.0**	**228.6**
Transportation	-48.6	-58.5	-46.1	-72.5	-83.7	-71.5	**-60.2**
Travel	252.2	276.4	352.2	317.2	296.3	330.0	**407.5**
Other Services	-102.9	-109.2	-105.3	-103.5	-104.5	-108.5	**-118.7**
Goods & Services Balance	**-430.4**	**-488.9**	**-400.4**	**-480.8**	**-592.2**	**-507.8**	**-474.1**
C. Income	**-131.5**	**-149.9**	**-164.1**	**-190.5**	**-157.1**	**-164.2**	**-162.2**
Compensation of Employees	32.0	36.6	8.5	11.8	35.4	32.8	**9.9**
Investment Income	-163.5	-186.5	-172.6	-202.3	-192.5	-197.0	**-172.1**
D. Current Transfers	**335.1**	**447.5**	**395.8**	**377.1**	**394.1**	**411.4**	**404.0**
General Government	40.8	64.6	42.4	32.7	30.8	31.1	**35.7**
Other Sectors	294.3	382.9	353.4	344.4	363.3	380.3	**368.3**
2. Capital & Financial Account	**226.8**	**191.2**	**168.7**	**294.2**	**255.2**	**260.6**	**232.3**
A. Capital Account	**0.2**	**1.6**	**-0.9**	**-0.7**	**-1.0**	**-0.1**	**-1.8**
Capital Transfers	0.2	1.6	-0.9	-0.7	-1.0	-0.1	**-1.8**
General Government	3.4	3.5	0.1	0.2	0.0	0.0	**0.0**
Other Sectors	-3.2	-1.9	-1.0	-0.9	-1.0	-0.1	**-1.8**
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	**226.6**	**189.6**	**169.6**	**294.9**	**356.2**	**260.7**	**234.1**
Official Investment	32.9	118.9	13.4	-7.5	180.5	222.6	**56.5**
Private Investment (including net errors & omissions)	206.2	312.7	199.3	557.6	137.9	6.5	**168.4**
Reserves	-12.5	-242.0	-43.1	-255.2	37.8	31.6	**9.2**

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
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[r]	**360.6**	**809.5**	**1.2**	**327.4**	**1 498.7**	**272.7**	**1 771.4**
June	96.9	185.6	0.3	83.3	366.1	40.2	406.3
September	70.3	186.4	0.3	84.8	341.8	48.3	390.1
December	97.5	216.5	0.3	88.8	403.1	134.1	537.2
March	95.9	221.0	0.3	70.5	387.7	50.1	437.8
2005/2006[r]	**364.9**	**978.6**	**1.2**	**302.5**	**1 647.2**	**162.6**	**1 809.8**
June	74.7	241.6	0.3	77.3	393.9	40.8	434.7
September	90.8	245.3	0.3	75.2	411.6	40.8	452.4
December	96.7	254.0	0.3	77.1	428.1	40.8	468.9
March	102.7	237.7	0.3	72.9	413.6	40.2	453.8
2006/2007							
June	93.7	260.0	0.3	81.4	435.4	40.2	475.6

R - revised

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

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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
2006/2007			
June	66.03	59.50	120.19
September	66.06	59.10	123.48

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PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

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

n.a: Not Available

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

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

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

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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	4 099.7	4 048.7	151.0	18.8
June	916.0	1 061.8	51.6	4.5
September	1 022.3	1 013.7	0.0	3.6
December	1 035.9	957.4	5.4	3.5
March	1 125.5	1 015.8	94.0	7.2
2006/2007				
June	1 136.3	1 053.4	46.3	6.9
September	1 186.5	1 003.9	0.0	9.9

** Exports*

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

	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06
Total Gross Domestic Product	2.75	-0.15	-0.87	-0.05	-0.04	3.39	2.57	2.12	2.61
Agriculture, Forestry & Fishing	0.68	-8.51	-29.73	-25.72	-17.48	1.57	27.99	22.94	17.68
Export Agriculture	8.62	-1.00	-68.94	-52.04	-41.69	-57.76	112.17	64.32	18.20
Domestic Agriculture, Livestock, Forestry & Fishing	-1.32	-9.46	-22.44	-16.28	-10.78	9.77	21.73	14.43	17.59
Mining & Quarrying	7.76	-7.77	0.30	1.33	0.82	16.64	-3.34	-2.08	1.50
Manufacturing	6.55	-0.97	0.14	-4.25	-0.06	3.76	-4.42	-0.93	-3.80
Food, Beverages & Tobacco	5.12	-0.09	3.84	-2.72	0.67	-1.27	-10.38	-6.82	-9.36
Other Manufacturing	8.64	-1.98	-3.56	-6.33	-1.08	9.63	2.01	7.33	4.13
Electricity & Water	3.10	-6.45	-0.23	0.44	1.74	10.24	4.46	3.98	2.01
Construction & Installation	1.95	6.03	10.08	12.09	8.53	10.19	-0.59	-5.73	-4.84
Distributive Trade	1.19	1.80	0.90	1.77	1.15	0.71	0.86	0.74	0.81
Transport, Storage & Communication	3.59	-0.75	-1.16	2.48	-0.59	0.35	2.74	2.74	4.66
Finance & Insurance Services	-1.06	1.59	-0.75	-0.39	-0.69	0.22	2.52	1.96	2.11
Real Estate & Business Services	1.88	2.56	1.53	1.64	2.26	2.08	1.81	2.71	2.45
Producers of Government Services	-0.10	0.41	0.94	-0.20	-0.74	0.99	1.13	0.21	0.53
Miscellaneous Services Household and Private Non-Profit Institutions	8.63	1.84	0.22	5.61	-0.65	-2.33	9.72	7.70	15.82
Hotels, Restaurants & Clubs	10.68	1.65	-0.72	6.50	-1.70	-4.32	12.79	9.17	19.98
Less Imputed Bank Service Charge	6.56	2.14	3.44	2.02	-0.77	-3.27	-2.68	-0.07	1.11

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
Assets	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**
Foreign	101 367.1	113 727.7	118 206.1	134 085.9	140 935.2	139 675.7	154 986.1	150 870.6	163 156.8
Current Account & Foreign Currency Balances	9 824.6	12 036.4	14 005.1	16 263.7	17 681.6	14 090.9	8 942.3	9 263.6	11 987.9
Time Deposits & Securities	86 121.4	96 047.5	98 606.1	108 978.7	120 550.1	122 805.6	138 634.6	134 050.6	143 498.5
Holdings of Special Drawing Rights	6.0	4.4	10.5	2.6	25.2	0.4	8.8	14.5	17.0
Other	5 415.1	5 639.4	5 584.4	8 840.9	2 678.3	2 778.8	7 400.4	7 541.9	7 653.4
Local	95 521.4	96 891.3	104 193.6	106 106.5	107 991.2	100 660.5	104 301.7	105 527.8	107 407.5
Public Sector Securities	85 125.6	85 131.1	85 139.9	85 125.9	90 034.8	81 357.5	79 358.9	84 862.3	87 163.4
Other Assets	10 395.8	11 760.2	19 053.7	20 980.6	17 956.4	19 303.0	24 942.8	20 665.5	20 244.1
Liabilities	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**
Foreign	401.4	424.3	370.7	395.2	342.2	346.6	361.7	310.3	236.0
Local	196 487.1	210 194.7	222 028.9	239 797.2	248 584.2	239 989.8	258 926.1	256 088.1	270 328.3
Currency in Circulation	26 261.3	32 438.3	28 711.7	27 049.7	27 445.9	35 682.7	29 747.7	30 776.5	32 187.6
Deposits	159 435.8	165 535.6	179 817.5	201 790.1	207259.0	187 435.9	210 909.4	210 670.5	224 521.8
Bankers	28 278.6	29 186.6	27 086.5	24 396.5	24 819.5	26 226.8	26 442.0	25 246.5	26 843.9
Government	656.5	3 482.6	4 739.6	6 774.8	4 637.5	3 308.4	6 557.1	11 366.4	20 097.7
Open Market Operations	127 629.3	130 692.1	143 854.8	167 485.1	168 108.2	149 806.5	157 357.6	159 438.0	166 018.9
Other	2 871.4	2 174.3	4 136.6	3 133.7	9 693.8	8 094.2	20 552.7	14 619.6	11 561.3
Allocation of Special Drawing Rights	3 573.6	3 573.6	3 573.6	3 792.7	3 792.6	3 792.7	3 792.7	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	2 283.6	2 285.9	2 282.3	2 983.3	2 961.6	2 866.2	2 813.1	3 279.5	3 112.0
Other Liabilities	4 908.8	6 337.3	7 619.9	4 157.4	7 101.1	10 188.1	11 639.2	7 544.9	6 690.2

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06[r]	Sep-06[P]
Assets	**341 427.1**	**344 378.6**	**343 452.4**	**346 352.9**	**356 575.5**	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.4**
Cash	4 055.5	5 754.4	5 139.9	4 034.0	3 320.8	6 014.4	3 519.6	3 254.3	3 696.4
Balances with BOJ	52 877.8	55 896.7	59 776.1	61 415.5	62 486.9	57 747.9	66 793.0	70 857.1	75 384.0
Foreign Assets	71 803.7	73 289.8	67 327.2	61 079.6	71 328.1	75 443.9	83 846.4	90 768.5	90 298.1
Loans & Advances	108 989.0	113 368.8	118 444.9	125 513.2	124 842.3	132 095.3	131 963.6	140 265.3	143 400.2
Private Sector	80 687.3	83 558.3	88 548.4	88 829.5	93 714.5	99 544.2	102 911.4	109 273.5	114 369.4
Public Sector	28 301.7	29 810.5	29 896.5	36 683.7	31 127.8	32 551.1	29 052.2	30 991.8	29 030.8
Public Sector Securities	62 695.7	56 455.4	52 434.0	57 644.9	56 515.4	56 118.0	56 144.6	54 399.3	55 984.4
Cheques in the Process of Collection	5 381.2	4 040.6	6 330.5	3 484.2	4 860.9	3 472.3	7 331.1	5 249.7	4 292.2
Other Assets	35 624.2	35 572.9	33 999.8	33 181.5	33 221.1	36 186.2	36 161.2	35 085.1	38 348.1
Liabilities	**341 427.1**	**344 378.6**	**343 452.4**	**346 352.9**	**356 575.5**	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.3**
Deposits	223 188.9	228 190.5	234 117.2	233 407.8	240 794.3	246 264.9	255 315.4	262 241.9	268 345.9
Local Currency	135 475.1	139 515.4 88	145 325.4	143 720.0	144 734.2	148 895.3	157 303.3	161 806.5	
Foreign Currency	87 713.8	675.1	88 791.9	89 687.8	96 060.1	97 369.6	98 012.1	100 435.4	
Foreign Liabilities	22 932.1	26 374.9	28 856.4	31 241.4	30 496.4	35 453.1	41 797.7	47 720.5	55 210.6
Discounts & Advances from BOJ	199.6	229.9	117.5	144.1	361.6	234.5	174.6	173.1	226.1
Loans/Advances from Other Institutions	7 806.5	7 762.3	5 214.4	5 042.9	5 059.6	5 095.7	4 896.5	4 989.0	4 777.0
Cheques in the Process of Payment	3 172.3	2 498.5	3 056.4	2 828.2	2 616.4	2 789.5	3 450.9	3 645.1	3 305.9
Other Liabilities	84 127.7	79 322.5	72 090.5	73 688.9	77 247.2	77 240.3	80 124.4	81 109.7	79 537.9

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237
2005/2006				
June	3.2498	3.4263	3.6131	3.8135
September	3.7779	3.8981	4.0363	4.1951
December	4.3622	4.4910	4.6662	4.8357
2006/07				
March	4.7604	4.9203	5.0527	5.1867
June	5.2301	5.3673	5.4759	5.5772
September	5.3300	5.3898	5.4249	5.4101

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
2006/07				
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
June	4 11/16 – 4 19/32	4 3/4 – 4 21/32	4 13/16 – 4 23/32	5 – 4 29/32
September	4 15/16 – 4 7/8	5 1/16 – 5	5 3/16 – 5 3/32	5 9/32 – 5 7/32

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
2006/07					
March	2.50	4.75	5.53	7.75	4.50
June	2.75	5.25	6.02	8.25	4.50
September	3.00	5.25	6.25	8.25	4.75

4A

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

	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
US$ vs. Sterling	0.5188	0.5248	0.5502	0.5653	0.5818	0.5704	0.5425	0.53430
US$ vs. Canadian $	1.2191	1.2161	1.2402	1.1606	1.1656	1.1547	1.1138	1.1153
US$ vs. Yen	103.90	105.23	108.75	113.34	117.88	117.28	114.63	118.00
US$ vs. Euro	0.7472	0.7580	0.8227	0.8294	0.8445	0.8315	0.7900	0.78820

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(September 2006)

	GBP	CAN$	US$	Yen	Euro
GBP	1.000	2.087	1.871	220.84	1.4752
CAN$	0.479	1.000	0.896	105.80	0.707
US$	0.534	1.1153	1.000	118.00	0.788
Yen	0.005	0.009	0.008	1.000	0.007
Euro	0.678	1.415	1.269	149.70	1.000

4C

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

	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
Sterling vs. US$	1.9058	1.8177	1.7691	1.7168	1.7440	1.843	1.8716
Sterling vs. Canadian $	2.3177	2.2543	2.0532	2.0054	2.0185	2.053	2.0874
Sterling vs. Yen	200.52	197.67	200.51	202.63	204.54	211.29	220.84
Sterling vs. Euro 1/	1.4445	1.4954	1.467	1.4554	1.4501	1.456	1.4752

5A

WORLD COMMODITY PRICES ALUMINIUM *(US$ per tonne)* (End- of-Period)							
	Mar-05	**Jun-05**	**Sept-05**	**Dec-05**	**Mar-06**	**Jun-06**	**Sept-06**
Spot (Cash)	1982.40	1731.30	1857.00	2247.50	2429.12	2477.34	2572.00
3 Month	1962.50	1748.18	1877.00	2236.50	2458.15	2520.61	2587.00

5B

WORLD COMMODITY PRICES FOOD (End- of-Period)							
	Mar-05	**Jun-05**	**Sep-05**	**Dec-05**	**Mar-06**	**Jun-06**	**Sept-06**
Wheat **(US$/mt)**	151.0	141.9	159.7	164.44	174.40	195.20	196.00
Coffee (USc/kg arabica brand)	297.1	267.4	219.3	233.18	250.6	227.40	242.10

5C

MAJOR STOCK MARKET INDICES (End- of-Period)							
	Mar-05	**Jun-05**	**Sep-05**	**Dec-05**	**Mar-06**	**Jun-06**	**Sept-06**
TOKYO							
Nikkei Index	11668.95	11584.01	13574.3	16111.43	17059.66	15505.18	16127.58
NEW YORK							
Dow Jones Industrials	10525.26	10274.97	10568.7	10717.50	11150.30	11150.22	11679.07
S & P Composite	1183	1191.33	1228.81	1248.29	1299.72	1270.20	1335.85
LONDON							
Financial Times SE 100	4894.4	5113.2	5477.7	5618.8	5964.6	5833.4	5960.8
FRANKFURT							
Dax Index	4586.28	4348.77	5044.12	5408.26	5970.08	5683.31	6004.33
ZURICH							
SMI Index	6253.08	5929.7	6898.88	7583.93	8023.30	7652.10	8425.91

6

WORLD COMMODITY PRICES KEY CRUDE OIL PRICES (US$/barrel – f.o.b.) (End- of-Period)							
	Mar-05	**Jun-05**	**Sep-05**	**Dec-05**	**Mar-06**	**Jun-06**	**Sep-06**
UAE's Dubai Light	45.58	50.97	56.54	56.75	57.65	65.08	59.77
North Sea Brent	53.08	54.31	61.88	53.13	62.25	68.86	62.77
West Texas Intermediate	43.23	56.39	66.25	59.41	62.89	70.93	64.10

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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