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 a discussion on the recent turbulence in the US sub-prime mortgage market as well as, a highlight on the revised consumer price index.

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

Monetary policy was significantly challenged during the review quarter by both domestic and international factors. The main challenges were major demand-supply imbalances in the foreign exchange market, largely influenced by continuing low interest rate differential between foreign currency-denominated and domestic currency securities. This narrow spread contributed to an estimated US$145.0 million decline in net private capital inflows, relative to the June 2007 quarter. This was in spite of a 50 basis points reduction in the US Federal funds rate in September, as well as progressively higher monthly Government of Jamaica (GOJ) Treasury bill rates during the quarter. Uncertainties associated with the possible changes in policy stance following the national elections and the effects of Hurricane Dean during the review quarter also had a negative impact on investor confidence.

Further, the international financial environment was adversely affected by the global credit crunch arising from the fall-out in the US sub-prime mortgage market. The increased uncertainty in international markets precipitated a general upward movement in the yields on emerging market bonds, including Government of Jamaica (GOJ) sovereigns. (see Box 1. The Recent Turbulence in the US Subprime Mortgage Market). Jamaica's terms of trade (TOT) also deteriorated for the quarter, largely as a result of sizeable increases in international crude oil and agricultural raw material prices. These challenges were manifested in instability in the domestic foreign exchange market for the review quarter. The rate of depreciation of the Jamaica Dollar vis-à-vis the US dollar accelerated to 2.61 per cent, relative to 1.13 per cent in the June quarter.

In addition to conducting regular open market operations, the Bank sold foreign currency to smooth supplies in the foreign exchange market as well as offered two special variable rate instruments and one special fixed rate instrument to influence a reduction in Jamaica Dollar liquidity during the September 2007 quarter. The repricing margins on the two special variable rate CDs offered in July and September were increased to 2.00 percentage points above the BOJ 90-day rate, applicable at the beginning of each quarterly interest payment period, from 1.25 percentage points in the June quarter. The Bank also offered attractive terms on its special one-year fixed rate CD issued in September, which included semi-annual interest payments of 14.00 per cent per annum, 2.00 percentage points above the rate applicable on the BOJ 180-day rate. In addition, the Bank continued to offer its normal menu of OMO instruments.

To support liquidity absorption the Bank also sold US$191.2 million (net) to the market, excluding regular mining-related purchases. This contributed to a decline in the net international reserves (NIR) of US$322.7 million to US$1 916.2 million at end-September 2007. A build up of GOJ balances at the BOJ for the September quarter also contributed to the absorption of liquidity.

Despite these liquidity absorption efforts, the monetary base expanded during the quarter by 2.8 per cent relative to the programmed expansion of 1.5 per cent. The main source of this deviation was a higher than programmed expansion of the net domestic assets of the BOJ due to a net unwinding of open market instruments. This expansion was mainly reflected in a 3.0 per cent increase in the currency stock relative to the programmed expansion of 0.5 per cent. The growth in the monetary base for the quarter implied a 5.1 per cent expansion for the first half of the fiscal year, 2.1 percentage points higher than programmed.

Broad Jamaica Dollar money supply (M3J) increased by 2.1 per cent, relative to the 3.3 per cent growth anticipated in the monetary programme and the outturn of 2.9 per cent for the September 2006 quarter. The lower than anticipated growth in money supply occurred in a context where investors revealed a preference for foreign currency deposits. In this context, the measure of money supply that includes foreign currency deposits, M3*, increased at a faster rate of 4.9 per cent during the September 2007 quarter compared to the programmed growth of 3.8 per cent and the 1.8 per cent growth for the September 2006 quarter. This increase in M3* was influenced by an expansion of 13.0 per cent in foreign currency deposits in contrast to the decline of 1.7 per cent in the September 2006 quarter. At end September 2007, the ratio of foreign currency deposits to total private sector deposits was 31.3 per cent relative to 29.1 per cent at end June 2006.

During the September 2007 quarter, there was a reversal of the downward trend in monthly core inflation observed since January 2007. Underlying or core inflation as measured by the CPI excluding agriculture and fuel (CPI-AF) was 2.3 per cent for the quarter. This outturn was similar to the outturn for the June 2007 quarter, but above that recorded in the September 2006 quarter. On a monthly basis, CPI-AF inflation rose to 0.9 per cent in September from 0.6 per cent in July. Similarly, the annual point-to-point CPI-AF inflation as at September 2007 was 10.0 per cent compared to 9.7 per cent in September 2006. The CPI excluding agriculture (CPI-A) declined by 0.5 percentage points to 2.4 per cent, relative to the previous quarter. However, the annual point-to-point measure of the CPI-A was 8.8 per cent, similar to the outturn in the previous year.

Headline inflation, as measured by the new All Jamaica Consumer Price Index (see **Box 2. The Revised Consumer Price Index**) increased to 3.6 per cent for the September quarter, relative to 2.5 per cent for the preceding quarter. This higher outturn for the review quarter largely reflected increased prices for agricultural products, due primarily to damage from Hurricane Dean, as well as the effects of higher international commodity prices, in particular, international crude oil and grain prices.

The average international prices of West Texas Intermediate crude oil and agricultural raw materials increased by 16.2 per cent and 2.0 per cent, respectively, for the September quarter. During this period, crude oil prices rose to an average of US$75.49 per barrel, influenced primarily by continued supply concerns in the market. Significant increases in the prices of international commodities were the primary influences on an estimated 6.0 per cent deterioration in Jamaica's TOT during the September 2007 quarter.

Economic growth is estimated to have moderated to be within the range of 0.5 per cent to 1.0 per cent in the September 2007 quarter, following average growth of 2.1 per cent for the first half of 2007.

This moderation was influenced by declines in tradables, mainly agriculture, mining and tourism, arising from the effects of Hurricane Dean. However, growth in the non-tradables sector is estimated to have been in line with its average growth of 2.1 per cent over the previous two years.

The primary drivers of growth during the period were ***Transport, Storage & Communications***, ***Financing & Insurance***, ***Construction*** and ***Manufacturing***. Growth within ***Transport, Storage & Communications*** was fuelled by the expansion in the mobile and cable services sub-sector as well as increases of 5.0 per cent and 3.0 per cent in domestic cargo movements and ship calls, respectively. Expansions within ***Construction*** and ***Manufacturing*** reflected continued recovery in these sectors.

Estimates of the change in aggregate demand suggest that the economic expansion for the September 2007 quarter was reflected in all components of spending as well as an improvement in ***Net External Demand***. Growth in ***Private Consumption*** and ***Gross Fixed Capital Formation*** was consistent with continued positive results from the Jamaica Conference Board's Surveys of

Consumer Confidence and Business Confidence. This increased optimism was reflected in an improved outlook regarding higher future employment and income, as well as, positive expectations regarding profitability and the investment climate.

Improved consumer and investor optimism were also reflected in a 6.9 per cent increase in the Main JSE Index for the September 2007 quarter, which followed the 10.5 per cent decline for the first half of the year. This positive performance of the domestic equities market reflected greater investor interest given incentives regarding relatively low stock prices coupled with improved profit expectations for many of the listed companies. The positive market performance in the review period was reflected in a 7.1 per cent growth in market capitalization for the quarter. The growth in the indices and market capitalization are evidenced by price increases across most categories of stocks.

Headline inflation for the December 2007 quarter is projected to be in the range of 3.3 per cent to 4.3 per cent. The main risks to the inflation projection for the December 2007 quarter are adverse weather conditions, further increases in oil prices and continued volatility in the domestic foreign currency market. Inflation for the fiscal year is projected to be in the range12.0 per cent to 13.0 per cent, higher than the target range of 7.0 per cent to 8.0 per cent. This higher than targeted projection is premised on significant shocks to international commodity prices as well as the agricultural supply disruption caused by Hurricane Dean.

Real GDP in the December 2007 quarter is forecasted to expand at a faster pace than in the September 2007 quarter. The main drivers of this expansion should be Mining & Quarrying, Miscellaneous Services and Construction & Installation. Other sectors that should contribute to the economy's expansion include *Financing & Insurance Services, Electricity & Water; Transportation, Storage & Communication; Real Estate & Business Services* and *Distributive Trade*. However, agriculture is anticipated to continue to have a dampening influence on growth for the December 2007 quarter.

The main challenge for the Central Bank will be to ensure orderly conditions in the foreign exchange market, given the pressures on the external accounts arising from higher imports as well as less than buoyant net private capital inflows. Should these conditions worsen, the Bank may need to adopt a tighter monetary policy stance in the December 2007 quarter.

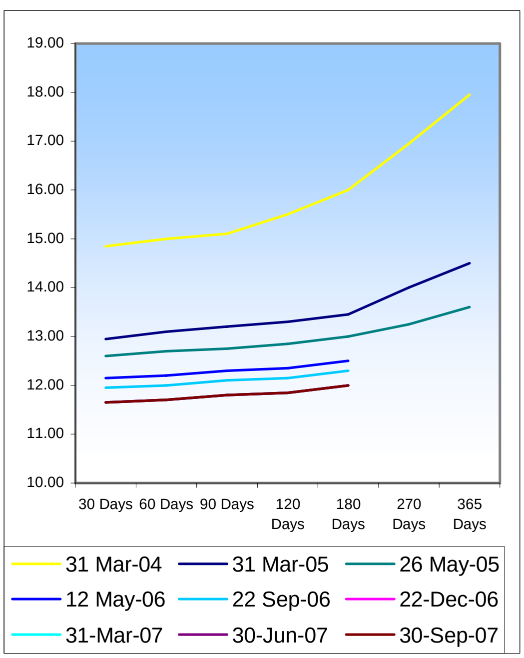
1. Monetary Policy and Financial Markets

Table 1.1

Selected Economic Indicators	Outturn for Sept'07 Quarter	Projection for Sept'07 Quarter	Targets for FY07/08
Inflation (% change)	3.6	2.2	7.0-8.0
Base Money (% change)	2.8	1.5	11.1
NIR (eop) (US$ mn)	1 947.4	2159.2	2 216.1

The Bank augments liquidity management efforts with offer of variable rate and longer tenors of fixed rate certificates of deposit.

Figure 1.1
BOJ Open Market Operations Yield Curve



Money & Credit

Monetary Policy and Base Money Management

The main challenge for monetary policy in the September quarter emanated from the instability in the foreign exchange market. This was in a context of high Jamaica dollar liquidity which facilitated the increased demand for foreign currency assets. Accordingly, the Bank of Jamaica (BOJ) employed a two-pronged approach of selling foreign currency as well as issuing variable rate and longer tenor certificates of deposit (CDs). In addition, the BOJ continued to offer its usual 30 to 180 day CDs on which it held rates constant. In this context the monetary base expanded by ***2.8 per cent*** *for the quarter.*

During the September 2007 quarter, the monetary base was managed in the context of significant demand for foreign currency assets. This was facilitated by high domestic liquidity mainly emanating from maturing open market instruments. The demand for foreign currency was mainly influenced by the unavailability of Jamaica Dollar hedging instruments particularly in light of the maturation of a USD-indexed bond in August (see **Foreign Exchange Market**). The acquisition of hedging instruments was seen as a means of compensating for the relatively low interest rate differential between foreign-currency denominated and Jamaica Dollar assets. In this context, the Bank focused on tightening domestic liquidity and maintaining stability in the foreign exchange market. Accordingly, in addition to the normal instruments offered in its open market operations (OMO), the Bank offered CDs with special features and augmented the supply of foreign currency to the market in order to limit the pass-through of exchange rate volatility to inflation.

The Bank augmented its liquidity management strategy with the offer of two variable rate CDs on 4-6 July and on 6-12 September. The repricing margin on these CDs were increased to 2.00 percentage points above the BOJ 90-day rate applicable at the beginning of each quarterly interest period, from 1.25 percentage points in the June quarter. The Bank also offered a one year fixed rate CD on 18-26 September with semi-annual interest payments of 14.00 per cent per annum, which was 2.00 percentage points above the

Table 1.2

Net International Reserves Jul- Sept 2007 Flows (US$MN)				
	July	Aug	Sept	Total
NIR	-92.7	-78.9	-151.1	-322.7

Figure 1.2
Base Money
(Quarterly Change)

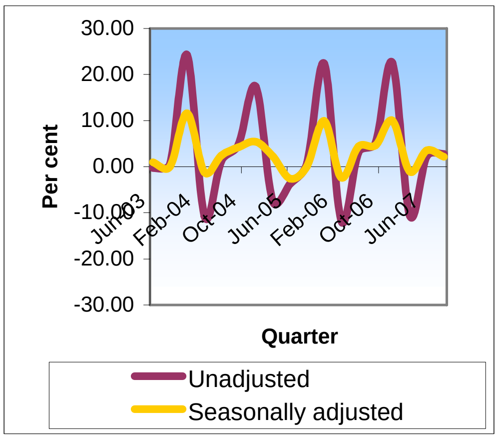
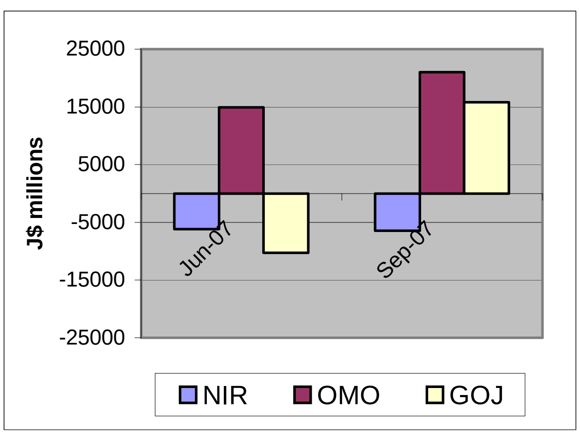


Figure 1.3
*Effects of the NIR, GOJ & OMO on Liquidity**



*Absorption-negative, Injection-positive

rate applicable on the BOJ 180 day rate. The Bank also continued to offer its normal 30 to 180 day open market securities to the market. The rates applicable to these securities remained unchanged for the third consecutive quarter (see **Figure 1.1)**. This decision reflected the improvement in the interest rate differential resulting from the reduction of the US Federal Funds rate as well as the Bank's use of the alternative instruments to conduct monetary policy. No incremental absorption of liquidity was achieved via the Bank's 30 to 180 day open market securities as investors largely used maturity proceeds from these securities to finance the demand for higher yielding or foreign currency assets. In addition to OMO, there were also significant sales of foreign currency, which helped to contain the pace of depreciation of the Jamaica Dollar as well as absorb liquidity from the system. Net sales amounted to US$191.2 million and contributed to a decline in the NIR of US$322.7 million (see **Table 1.2 and Foreign Exchange Market**).

In the context of the excess liquidity in the system, the monetary base expanded during the quarter by $1 484.3 million or 2.8 per cent relative to the programmed expansion of 1.5 per cent (see **Table 1.1** and **Figure 1.2**). The expansion was largely reflected in an increase in the currency stock of $1 097.7 million or 3.0 per cent relative to the programmed expansion of 0.5 per cent. The growth in the monetary base for the quarter implied a 5.1 per cent expansion for the first half of the fiscal year. This was 2.1 percentage points higher than programmed and was driven by an expansion of net domestic assets arising from the net unwinding of open market instruments.

Figure 1.4

Money Supply
(Quarterly Growth Rates)
September 2003 to September 2007

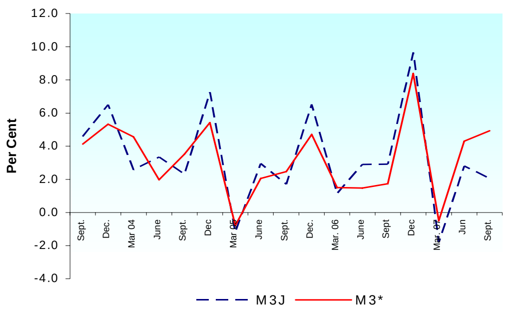


Table 1.3

Money Supply /1 (12-month growth rates)		
MJ	**Sep-06**	**Sep-07**
M1J	21.8	16.8
M2J	13.3	14.1
M3J	14.1	12.9
M*		
M1*	15.9	23.0
M2*	8.2	19.8
M3*	9.7	17.9

Table 1.4

INTEREST RATES IN THE DOMESTIC MARKET			
	Jul-06	**Mar-07**	**Jul-07**
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**5.36**	**4.97**	**5.02**
Demand	2.78	2.75	2.95
Savings	4.84	4.58	4.53
Time	7.71	6.94	6.88
Foreign Currency**	**3.23**	**3.16**	**3.20**
Demand	2.63	2.29	2.20
Savings	2.25	2.26	2.30
Time	5.05	5.09	5.05
6-MONTH TREASURY BILL RATE	**12.81**	**11.65**	**12.61**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**12.80**	**12.00**	**12.00**
PRIVATE MONEY MARKET RATE	**12.85**	**11.75**	**12.10**
memo:			
6-MONTH U.S. TREASURY RATE	**5.06**	**5.10**	**5.04**

** Foreign Currency rates are as at June 2007

Money Supply

During the September 2007 quarter, broad Jamaica Dollar money supply (M3J) increased by 2.1 per cent. This was below the growth outlined in the monetary programme and the outturn for the September 2006 quarter. On the demand side, the slower growth in money supply was reflected in a lower than programmed expansion in local currency deposits. The deceleration in the supply of money was primarily influenced by a larger than anticipated reduction in the net international reserves (NIR).

The measure of money supply that includes foreign currency deposits, M3, increased by 13.0 per cent relative to the decline of 1.7 per cent for the September 2006 quarter. At end September 2007, the ratio of foreign currency deposits to total private sector deposits was 31.3 per cent relative to 27.8 per cent at end September 2006.*

For the September 2007 quarter, broad Jamaica Dollar money supply (M3J) increased by 2.1 per cent. This increase was below the 3.3 per cent growth anticipated in the monetary programme and the outturn of 2.9 per cent for the September 2006 quarter (see **Figure 1.4**). The expansion in M3J for the review quarter brought growth for the first six months of the fiscal year to 4.9 per cent, relative to the programme target of 6.3 per cent. The lower than anticipated growth in money supply occurred in a context where investors indicated a preference for foreign currency deposits.

The main source of growth in M3J during the review quarter was the net unwinding of OMO securities amounting to $20 986.7 million. Investors used some of the OMO proceeds to finance placements in GOJ debt issues which were partly used to honor domestic obligations. An expansion of $6 365.9 million in banking system credit to the private sector was the other major source of monetary expansion (see **Private Sector Credit**).

A reduction in the NIR was the main countervailing influence on the growth in money supply during the quarter. This reduction was largely due to the Bank's sale of foreign currency to Authorized Dealers, which helped to contain the rate of depreciation in the value of the Jamaica Dollar. The depreciation was influenced by increased demand for foreign currency, partly due to a need to replace proceeds from a US Dollar indexed bond which matured in August.

Figure 1.5
Deposits in Commercial Banks
(Quarterly Growth Rates)
September 2004 to September 2007

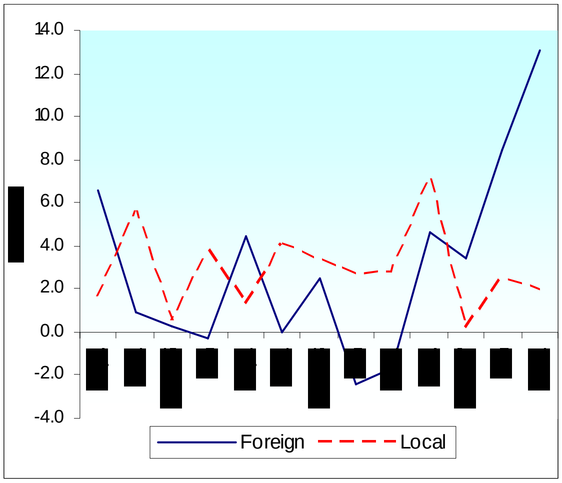


Figure 1.6

Foreign Currency Deposits to Total Deposits

September 2004 to September 2007

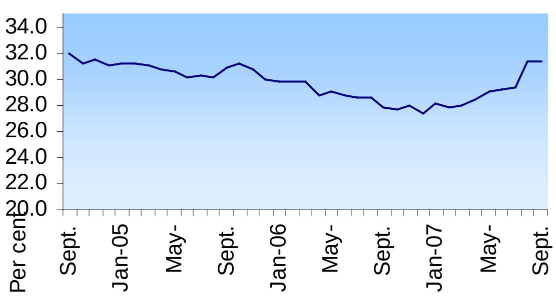


Table 1.5

COMPONENTS OF THE MONEY MULTIPLIER	Sep-06	Jun-07	Sep-07
	%	%	%
Currency to Deposits	15.26	15.91	16.02
Reserves to Deposits	10.13	9.91	10.03
Excess Reserves to Deposits	*2.13*	*2.02*	*1.95*
Cash Reserves to Deposits	*8.00*	*7.88*	*8.08*
Money Multiplier	**4.54**	**4.49**	**4.45**

The increased demand for foreign currency was facilitated by some of the proceeds from maturing OMO securities.

With respect to the components of money supply, local currency deposits grew by 2.0 per cent during the review quarter, below the 2.9 per cent growth recorded in the September 2006 quarter. This increase largely reflected growth of 3.4 per cent and 2.9 per cent in savings and other deposits, respectively. Currency in circulation, the other component of M3J, increased by $839.2 million or 2.6 per cent, below the 3.5 per cent growth recorded for the corresponding period of 2006.

During the review quarter, M3* grew by 4.9 per cent relative to the 1.8 per cent increase recorded for the September 2006 quarter (see **Figure 1.4**). This was influenced by an expansion of 13.0 per cent in foreign currency deposits in contrast to the decline of 1.7 per cent in the September 2006 quarter. Growth in foreign currency deposits during the quarter surpassed the average growth of 3.1 per cent over the last four September quarters and largely reflected expansions of 11.6 per cent and 31.0 per cent in savings and demand deposits, respectively. The build-up in foreign currency deposits contributed to the increased volatility in the foreign exchange market during the quarter. Growth in these deposits influenced an increase in the ratio of foreign currency deposits to total private sector deposits to 31.3 per cent at end September 2007 from 29.1 per cent at end June 2007 and 27.8 per cent at the end of the September 2006 quarter (see **Figure 1.6**).

At end September 2007, the money multiplier was 4.45 relative to 4.49 at the end of the previous quarter and 4.54 at end September 2006. 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, given a faster than anticipated increase in the monetary base, dampened the potential impact of the monetary base on inflation (see **Table 1.5**).

Figure 1.7
Quarterly Growth Rates of Private Sector Credit
September 2004 to September 2007

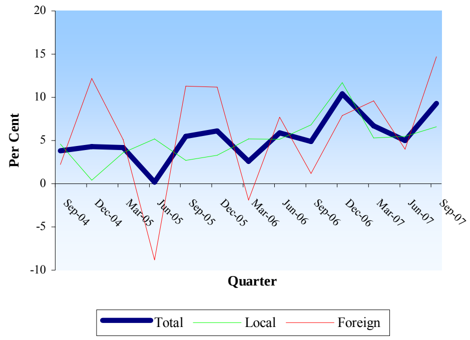


Table 1.7

Commercial Bank Distribution of Total Credit to the Private Sector J$ Million (Quarterly Flows)	Sep-06	Prov. Jun-07	Prov. Sep-07
Total Private Sector Credit	**5 454.3**	**6 871.9**	**13 539.1**
Loans and Advances	5 088.4	8 584.5	12 923.1
Other Investments and Private Debentures	365.9	-1 712.6	616.0

Table 1.8

Commercial Bank Distribution of Loans & Advances to the Private Sector (Quarterly Flows J$M)	Sep-06	Jun-07	Sep-07
Agriculture & Fishing	-533.1	-379.9	-290.2
Mining & Quarrying	266.9	-36.0	-9.1
Manufacturing	348.9	-479.4	825.2
Construction & Land Dev.	378.2	739.7	350.3
Transport, Storage & Comm.	-2 130.5	1 499.9	741.1
Tourism	211.8	989.0	3 293.1
Distribution	1 639.9	1 108.7	681.7
Professional & Other Services	562.8	222.4	1 201.2
Personal Loans	4 937.0	4 821.4	4 637.6
Electricity, Gas & Water	-627.5	52.6	1 514.7
Entertainment	26.9	19.7	-14.8
Overseas Residents	7.0	26.3	-7.5
TOTAL	**5 088.4**	**8 584.5**	**12 923.1**

Private Sector Credit

*There was a significant expansion in private sector credit during the September 2007 quarter. This outpaced the rate of credit growth in the previous quarter as well as the target outlined in the monetary programme. This expansion principally reflected strong growth in foreign currency denominated loans to **Tourism** and **Electricity, Gas & Water**.*

The stock of commercial bank credit to the private sector was $146 100.5 million at end-September 2007, representing an expansion of 9.3 per cent relative to end-June 2007. This growth in private sector credit surpassed increases of 5.0 per cent and 4.9 per cent in the June 2007 and September 2006 quarters, respectively (see **Figure 1.7**). The expansion in the review quarter also exceeded the increase of 3.7 per cent outlined in the monetary programme and brought growth in credit for the first half of FY 2007/08 to 14.7 per cent. Growth of 6.7 per cent was projected for the first six months of the fiscal year. The robust growth in private sector credit predominantly reflected a significant expansion in foreign currency denominated loans.

Loans and advances expanded by $12 923.1 million or 9.1 per cent during the review quarter. This was largely concentrated in ***Personal, Tourism***, ***Electricity, Gas & Water*** and ***Professional & Other Services*** (see **Table 1.8**). The robust growth in Personal Loans, in evidence since the June 2007 quarter, continued into the September quarter with an expansion of 7.3 per cent. Personal Loans have grown on average by 7.2 per cent over the past ten quarters. This category of loans continued to account for the largest proportion of the outstanding stock of private sector credit (see **Figure 1.8**). Credit card receivables increased by 8.7 per cent during the review quarter, relative to growth of 8.1 per cent in the corresponding period of 2006.

Loans to the tourism sector increased by 13.3 per cent during the review quarter, significantly above expansions of 4.2 per cent and 1.0 per cent in the June 2007 and September 2006 quarters, respectively. These loans were largely denominated in foreign currency and were utilized to effect significant construction and refurbishment. There was also robust credit growth in *Electricity, Gas and Water* during the review quarter relative to net repayments during the corresponding period of 2006. During the review quarter, credit growth in ***Professional & Other Services*** accelerated to 11.2 per cent from 2.1 per cent in the previous quarter and7.5 per cent in the September 2006 quarter.

Figure 1.8
Sectoral Distribution of Commercial Bank Loans & advances to the Private Sector Per Cent of outstanding Stock, September 2006 & September 2007

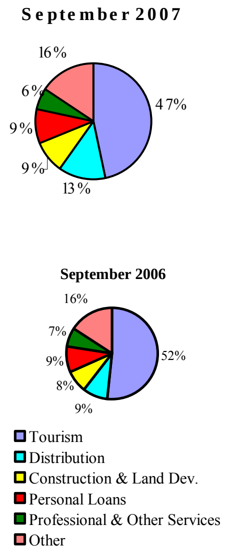


Table 1.9

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US$M)	Sep-06	Jun-07	Sep-07
Agriculture & Fishing	0.0	-4.9	4.1
Mining & Quarrying	4.3	0.0	-0.3
Manufacturing	5.9	0.2	2.5
Construction & Land Development	0.8	7.4	-0.6
Transport, Storage & Comm.	-12.1	11.9	7.4
Electricity, Gas & Water	-9.1	0.0	21.4
Distribution	7.2	-5.0	1.2
Tourism	2.3	3.2	36.8
Entertainment	0.3	-0.1	-0.1
Professional & Other Services	4.0	2.2	4.0
Personal Loans	4.5	5.0	7.2
Overseas Residents	0.1	0.2	0.0
TOTAL	**8.2**	**20.1**	**83.7**

Significant net repayments within ***Agriculture & Fishing*** continued in the review quarter. Loans to all other sectors remained relatively flat.

Foreign currency loans grew by US$83.7 million or 11.4 per cent during the review quarter. This significant growth exceeded expansions of 2.8 per cent and 1.3 per cent in the June 2007 and the September 2006 quarters, respectively. The growth in foreign currency loans reflected significant credit to ***Tourism***, ***Electricity, Gas & Water***, ***Transport, Storage & Communication*** as well as an increase in ***Personal Loans*** (see **Table 1.9**). ***Tourism*** continued to account for the largest proportion of foreign currency loans at end-September 2007 (see **Figure 1.9**). Given the significant acceleration in the growth of foreign currency loans during the review quarter, the proportion of these loans to total loans increased to 35.2 per cent at end-September 2007 from 33.8 per cent at end-September 2006.

Performance Indicators

Consistent with the aggressive marketing of loans within the banking sector and continued growth in economic activity, the ratio of private sector credit to total assets increased to 33.9 per cent at end-September 2007 from 32.4 per cent at end-June 2007 and 28.8 per cent at end-September 2006. At end-September 2007, the quality of the loan portfolio, as evidenced by the ratio of past due loans (over three months) to total loans, remained at the 2.0 per cent recorded at end-June 2007, and in line with the 2.1 per cent at end-September 2006. Similarly, the ratio of past due loans to private sector loans at end-September 2007, remained at the 2.3 per cent level recorded at end-June 2007 (see **Figure 1.10**).

Figure 1.9

Sectoral Distribution of Foreign Currency Loans & Advances to the Private Sector Per Cent of Outstanding Stock, September 2006 & September 2007

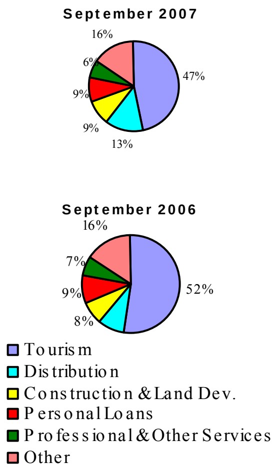
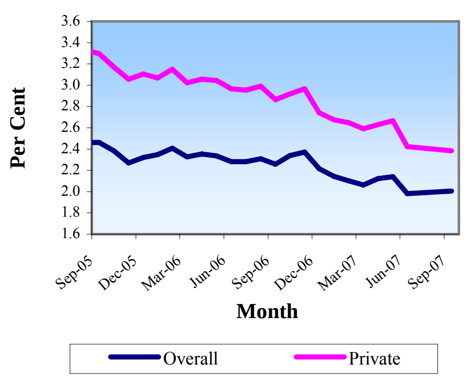


Figure 1.10

Commercial Banks' Past due Loans (Three Months and over) to Total Loans, September 2005 to September 2006



Bond Market

The GOJ continued its debt-raising activity in the local bond market, albeit, issuing less debt compared to the previous quarter. Most of the debt was issued at variable rates at the same repricing margin offered in the previous period. However, the rates on instruments were, in general, higher than those of the previous quarter. This was in keeping with investors' demand for higher returns in the review quarter. This demand which led to pressures in the foreign exchange market was facilitated by high levels of liquidity arising from the net unwinding of 30-180 day OMO instruments. Despite buoyant liquidity levels, average private money market rates were higher as the liquidity was relatively narrowly distributed at intervals throughout the quarter. In an effort to reduce the excess liquidity in the money market and demand pressures in the foreign exchange market, the BOJ issued two special VR CDs and one FR CD.

During the September 2007 quarter, the GOJ net issued $8 378.4 million in debt compared to $19 932.1 million in the previous quarter (**see Table 1.10**). Similar to the previous quarter, VR instruments constituted the majority of the total allotment. However, the initial payment on these instruments was offered at higher interest rates but the repricing margin remained at the 1.50 percentage point level and aligned with the six-month weighted average Treasury bill yield (WATBY). The timing of the issues provided supplementary assistance to the Bank's liquidity management.

Liquidity levels remained relatively high as compared to the previous quarter. There was a net unwinding on each tenor of the spectrum of OMOs with the combined total amounting to $40 191.0 million, compared to $18 382.6 million in the previous quarter. The proceeds of the maturing instruments facilitated the purchase of foreign exchange as well as the take-up of GOJ instruments during the review quarter. Placements in the regular OMO instruments during the quarter were mainly concentrated in the 30-day tenor indicating investors' preference for short-term instruments (**see Table 1.12**).

T able 1.10

GOJ Public Domestic Debt Raising July - Sept 2007			
	Amount allotted (J$MN)	Amount maturing (J$MN)	Net maturities (J$MN)
Treasury bills	2,700.0	2,700.0	0.0
Variable Rate LRS	0.0	3,870.0	3,870.0
Fixed Rate LRS	2,000.0	2,946.8	946.8
Var. Rate Inv. Deb.	0.0	0.0	0.0
Fixed Rate Inv. Deb.	11,063.4	0.0	-11,063.4
Var. Rate Inv. Bd.	19,624.6	10,930.5	-8,694.1
Fixed Rate Inv. Bd.	0.0	0.0	0.0
Fixed Rate Reg. Bd.	1,479.2	0.0	-1,479.2
Sub-total	36,867.2	20,447.3	-16,419.9
Fixed Rate Ind.Bd.	*0.0*	*115.2*	*115.2*
J$ equivalent	0.0	*8,041.5*	8,041.5
Total (J$)	36,867.2	28,488.8	-8,378.4

Table 1.11

Treasury Bill Auctions and Maturities July - Sept 2007				
Issue Date	Tenor (days)	Avg. yield (%)	Allotment (J$M)	Amount maturing (J$M)
27-Jul-07	182	12.16	500	
	91	12.12	400	
				900.0
24-Aug-07	182	12.21	500.0	
	91	12.21	400.0	
				900.0
21-Sep-07	182	14.29	500.0	900.0
	91	14.34	400.0	
Total			2700.0	2700.0

In the context of the high levels of liquidity, the BOJ sold two VR CDs and one FR CD to absorb the excess liquidity. The VR CDs absorbed $8.5 billion in total and were issued at the prevailing Treasury bill rate of 11.98 per cent and 12.21 per cent for a total of 9 days. Both instruments had a repricing margin of 2.00 percentage points above the BOJ 90-day instrument (see **Base Money**). The FR CD absorbed $9.2 billion and was issued at 14.00 per cent, 2 percentage points above the rate offered on the longest tenor of the Bank's OMO instruments.

Given the concentration of liquidity which persisted during the review period coupled with the demand for higher yields, there were increases in average yields on Treasury bills for the quarter. The yield on the 182-day tenor increased by 216 basis points, while the yield on the 91-day tenor increased by 236 basis points (**see Table 1.12**).

Interest rates in the private money market also reflected an increase in average rates over the previous quarter. The spikes in rates coincided with concentration of liquidity in some institutions at intervals, despite generally high liquidity levels throughout the period. Rates also spiked in tandem with GOJ and BOJ operations during the quarter (**see Figure 1.11**). The strong demand for foreign currency also affected private money market rates.

GOJ Global bond prices fell early in the quarter in the context of developments in the US subprime mortgage market (**see Figure 1.12**). However, maturities on two GOJ indexed bonds and the 12.75% 2007 global bond in late August and early September, respectively, precipitated an appreciation in prices on some of the remaining bonds. This price appreciation was aided by a 50 basis point rate cut in US Fed rates on 18 September, which in turn contributed to a depreciation of the US dollar. Despite the strengthening of the Euro against the US dollar, there was a depreciation on the Euro-denominated GOJ global bonds as local investors took profits. In the context of the sub-prime debacle, some international central banks pumped liquidity into their economies to ease the credit crunch. This culminated largely in foreign investors showing renewed interest in emerging market bonds including the US-denominated GOJ globals. The overall effect was that the longer tenor US-denominated bonds appreciated while all the Euro-denominated bonds depreciated at the end of the review quarter.

Table 1.12

Placements and Maturities* in BOJ OMO Instruments:							
	July - September 2007				April - June 2007	
	Maturities		Placements		Placements	
	($)	(%)	($)	(%)	($)	(%)
30-day	34,604.5	35.8	33,170.3	58.8	43,618.6	40.7
60-day	5,347.8	5.5	1,087.3	1.9	6,791.7	6.3
90-day	9,842.8	10.2	5,141.4	9.1	9,842.8	9.2
120-day	3,961.7	4.1	1,907.5	3.4	5,129.5	4.8
180-day	42,840.8	44.4	15,099.9	26.8	41,719.1	36.9

***excludes overnight transactions during the period**

Average yields on GOJ Treasury bills increase

Figure 1.11

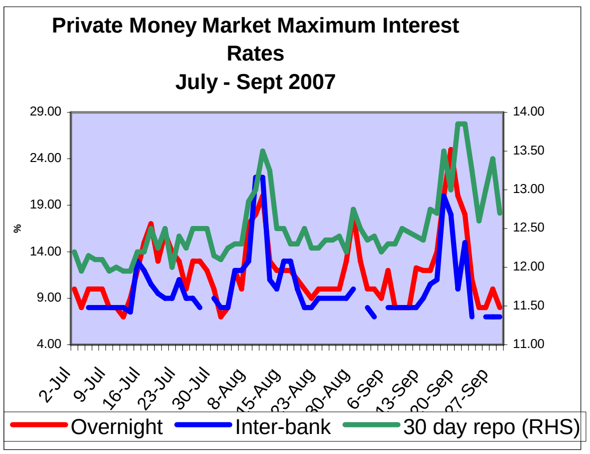


Figure 1.12

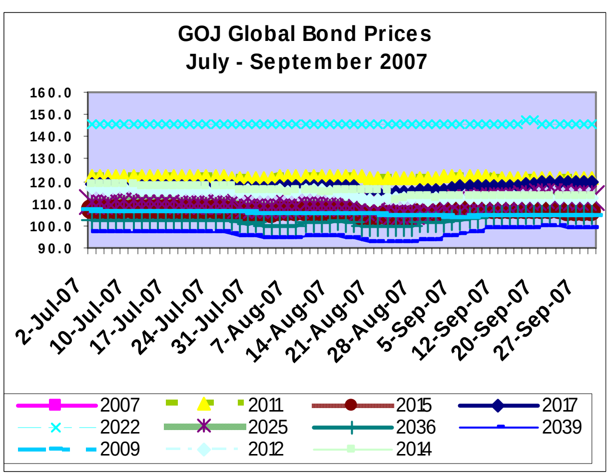
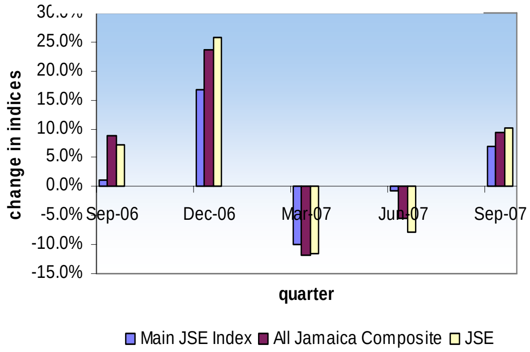
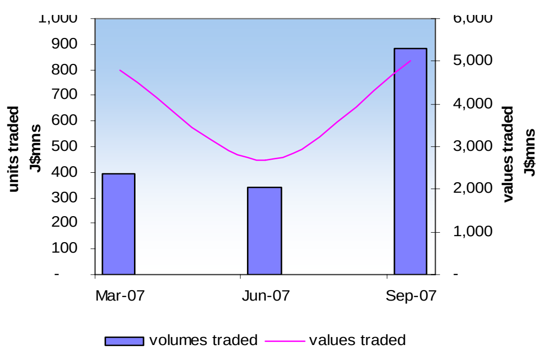


Figure 1.13
Quarterly Growth of the JSE Index – September 2006 – September 2007



Source: Jamaica Stock Exchange

Figure 1.14
Movements in Volumes and Values Traded – March – September 2007 Quarters



Source: Jamaica Stock Exchange

Table 1.13
Average Price Gains by Business Category

Category Quarter (%)	Sep-07
Financial	14.2
Manufacturing	18.5
Conglomerates	11.4
Insurance	7.3
Tourism	28.5
Retail	0.1
Communication	0.6
Other	-5.8

Source: Jamaica Stock Exchange

Stock Market

The Main Jamaica Stock Exchange (JSE) Index increased moderately during the September 2007 quarter. Favourable earnings reports by some of the listed companies and relatively low price-earnings (P/E) ratios across the market contributed to price gains for many companies. The increased demand for equity investments partly reflected improved investor confidence regarding overall prospects for stronger company performance. However, the rebound in the equities market was adversely affected by the passage of Hurricane Dean and the increased demand for foreign currency investments given the continued instability in the foreign exchange market.

Relative to end June 2007, the Main JSE Index increased by 6.9 per cent to close the September quarter at 96 300 points (see **Figure 1.13**). Similarly, the All Jamaica Composite Index increased by 9.4 per cent, while the JSE Select Index increased by 10.2 per cent. The performance of the Main JSE Index in the review quarter followed a 10.5 per cent decline for the first half of the year. During the quarter, the local equities market provided an attractive option for investors given the relatively low P/E ratios and the improved profit expectations for many of the listed companies. However, the advances in the stock market were tempered by the increased attractiveness of foreign currency investments and the falloff in market activity associated with the passage of Hurricane Dean.

The positive market performance in the review period was reflected in a 7.1 per cent growth in market capitalization to $793.3 billion at end September 2007. This performance was buoyed by strong increases in market activity during the quarter. Volumes traded totalled 884.7 million units at a value of $5 000.2 million relative to 338.0 million units traded at a value of $2 692.6 million in the June 2007 quarter (see **Figure 1.14**). The growth in the indices and market capitalization was largely influenced by increased investor interest in the stocks of entities listed in the financial and manufacturing sectors and the share price appreciation for many of the companies in these sectors (see **Table 1.13**).

Table 1.14
10 Largest Advancing Stocks -
September 2007 Quarter

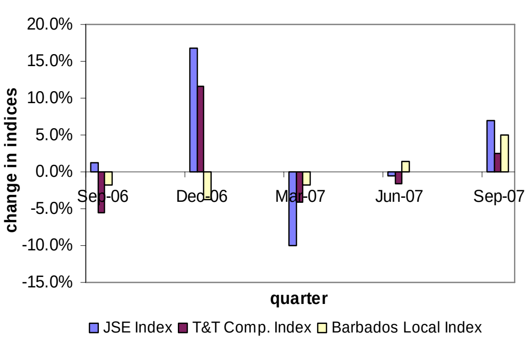
Companies	Price at 30-Sept-07 $	Qtr. Change %
Advancing Stocks		
Financial		
Mayberry	3.49	49.79
FCIBJ	39.10	62.92
Manufacturing		
Caribbean Cement	10.00	14.94
Salada	67.00	109.38
Mobay Ice	12.15	73.57
Tourism		
Pegasus Hotel	12.00	21.83
Ciboney	0.05	66.67
Retail		
Carreras	64.00	27.2
Communications		
Gleaner	2.20	18.92
Other		
Pulse Investments	2.30	15.00

Source: Jamaica Stock Exchange

Table 1.15
Declining Stocks -
September 2007 Quarter

Companies	Price at 30-Sept-07 $	Qtr. Change %
Declining Stocks		
Manufacturing		
Seprod	15.00	-6.50
CMP	1.60	-8.60
Goodyear	6.10	-12.90
Retail		
Hardware & Lumber	15.00	-1.60
Financial		
DB&G	24.18	-0.2
NCB Capital Markets	2.90	-9.38
Communication		
Cable & Wireless	0.78	-12.4
Radio Jamaica	3.00	-4.80
Other		
Supreme Ventures	2.30	-32.40
Tourism		
Montego Freeport	2.00	-2.90

Figure 1.15
Quarterly Growth of Regional Indices –
September 2006 – September 2007



Market capitalization for financial and manufacturing sector stocks increased from approximately $524 billion at end June 2007 to some $560.5 billion at end September 2007, and jointly accounted for 71.2 per cent of market capitalization at end September 2007.

For the September 2007 quarter, 31 stocks recorded price gains while 10 stocks declined. Companies which posted strong profits attained the highest stock price gains. Among the top stock price performers were Salada Foods Limited and Montego Bay Ice Company Limited (see **Table 1.14**). Price declines were from a wide cross-section of sectors. The two worst performers were Supreme Ventures Limited and Goodyear Jamaica Limited (see **Table 1.15)**.

In the context of a lower interest rate environment in Barbados, the Local Index increased by 5.0 per cent relative to an increase of 1.4 per cent for the June 2007 quarter (see **Figure 1.15**). For Trinidad & Tobago, the Composite Index increased by 2.5 per cent, compared to a decline of 1.6 per cent in the previous quarter and was largely influenced by price gains by most of the Jamaican cross-listed companies.

Figure 1.16
Percentage Change in Weighted Average Selling Exchange Rate (e.o.p.)
(J$1.00= US$)

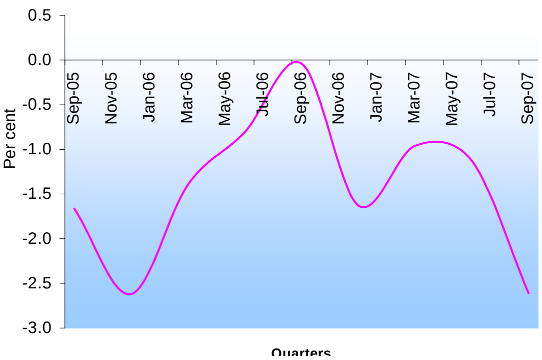
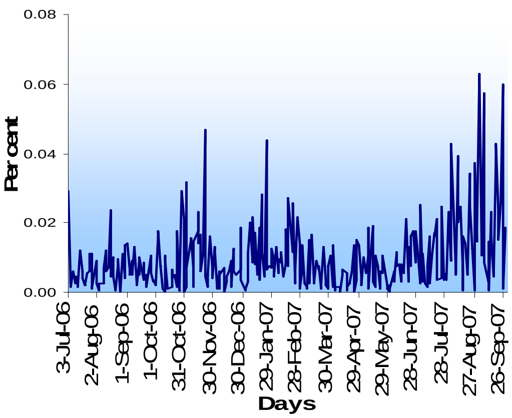
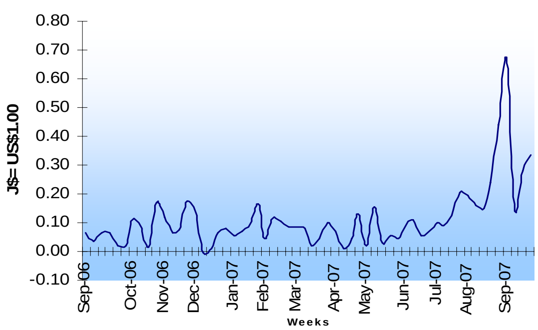


Figure 1.17
Exchange Rate Volatility (*)



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

Figure 1.18
Weekly Exchange Rate Trading Range



Foreign Exchange Market

The strong demand pressures that characterized the foreign exchange market in the June quarter intensified in the September 2007 quarter. The exchange rate consequently depreciated by 2.61 per cent in the review quarter, relative to 1.13 per cent depreciation in the preceding quarter. Market conditions were influenced by a contraction in net private capital inflows reflecting portfolio switching, which was facilitated by high Jamaica Dollar liquidity conditions. The pressures in the market were particularly intense in August, partly influenced by the redemption of two US dollar indexed bonds by the Government.

In the context of the demand pressures, the Bank of Jamaica (BOJ) offered two variable rate instruments and one fixed rate instrument over a brief period and sold foreign exchange to the market. At end-September 2007, the NIR was lower than the programmed level and outturn for end-June 2007.

The instability that characterized the foreign exchange market in the June 2007 quarter increased in the September 2007 quarter. The weighted average selling rate (WASR) of the US dollar was J$70.41 = US$1.00 at end-September 2007, compared with J$68.58 = US$1.00 at end-June. This represented a depreciation of 2.61 per cent, significantly above the 1.13 per cent recorded in the June 2007 quarter **(**see **Figure 1.16)**. Market pressures were most pronounced in August with the WASR depreciating by 1.35 per cent for the month (See **Figure 1.17**). Depreciations of 0.45 per cent and 0.83 per cent were also recorded for July and September, respectively. The outturn for the quarter resulted in a depreciation of 4.63 per cent for the calendar year to date, above the 2.20 per cent recorded for the comparable period of 2006.

There was also an increase in the average weekly market trading range to J$0.24, relative to an average of J$0.07 for the preceding quarter (see **Figure 1.18**).[1] The trading range increased significantly in the first week of September to J$0.67 from an average of J$0.20 for the preceding eight weeks. The average bid-ask spread, expressed as a percentage of the buying rate for the market, also increased by 20.6 per cent to 0.43 per cent in the September quarter, relative to the previous quarter (see **Figure 1.19**).

The instability in the market over the review quarter largely resulted from an increased preference for US dollar denominated instruments associated with a narrowing of the interest rate differential between foreign currency denominated

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

Table 1.16
Foreign Exchange Cash Flows*

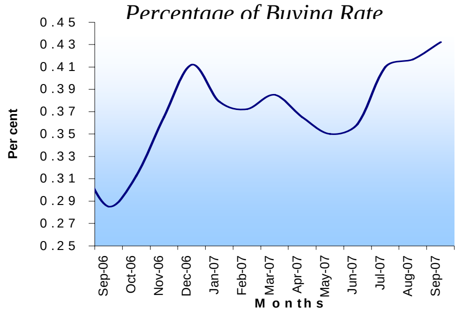
US$MN	2006 Jul-Sep	2007 Apr-Jun	2007 Jul-Sep	Change Relative To Previous Qtr	Change Relative To Previous yr
Net Current Inflows	-633.2	-609.0	-595.0	14.0	38.1
Current Inflows	942.2	989.4	1049.2	59.9	107.0
Current Outflows	1575.4	1598.4	1644.3	45.8	68.9
Net Private Capital Inflows	879.1	514.1	377.8	-136.3	-501.3
Balance	246.0	-94.9	-217.2	-122.3	-463.2

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

Table 1.17
Net International Reserves
(US$MN)

Month	Stock	One Month Change	Three Month Change
Sep-06	2342.0	126.4	231.9
Oct-06	2306.4	-35.6	218.6
Nov-06	2353.0	46.6	137.4
Dec-06	2317.6	-35.4	-24.4
Jan-07	2288.4	-29.2	-18.0
Feb-07	2185.6	-102.8	-167.4
Mar-07	2329.4	143.8	11.8
Apr-07	2292.4	-37.0	4.0
May-07	2252.2	-40.1	66.6
Jun-07	2238.9	-13.3	-90.5
Jul-07	2146.2	-92.7	-146.2
Aug-07	2067.3	-78.9	-184.9
Sep-07	1916.2	-151.1	-322.7

Figure 1.19
Foreign Exchange Spread as a Percentage of Buying Rate



assets and Jamaica Dollar assets. The narrowing of the interest rate differential was influenced by a general increase in GOJ global bond yields on the international market in July and August (See **International Developments**). Increased demand for foreign currency, which was facilitated by high Jamaica Dollar liquidity conditions, was also associated with the redemption of two US$ indexed bonds in August by the Government, valued at approximately US$110.0 million. The maturation prompted investors to convert their Jamaica Dollar proceeds to US dollars to maintain their investments in hedging instruments, resulting in the significant depreciation in exchange rate in August and the first week of September.

In the context of the foregoing, there was a US$145.0 million decline in net private capital inflows during the quarter. Contributing to this was a US$57.7 million build-up in the net foreign currency position of authorized dealers. The Bank estimates that while there was a decline in the net foreign exchange demand to facilitate current account transactions, this was not sufficient to offset the reduction in net private capital inflows (see **Table 1.16**). The lower net demand was attributed to an estimated US$59.9 million increase in foreign exchange inflows, principally associated with higher remittances and inflows from seasonal workers abroad. There was, however, a US$45.8 million increase in payments, largely associated with higher spending on oil imports in the context of an increase of 16.2 per cent in oil prices in the review quarter, relative to the preceding quarter.

Consistent with the continued build up in the net foreign currency positions of authorized dealers, the system purchased on a daily basis (excluding inter-dealer transactions and intervention), an average of US$1.0 million (net) from the market during the quarter. This was above the average daily net purchases of US$0.8 million recorded over the June 2007 quarter.

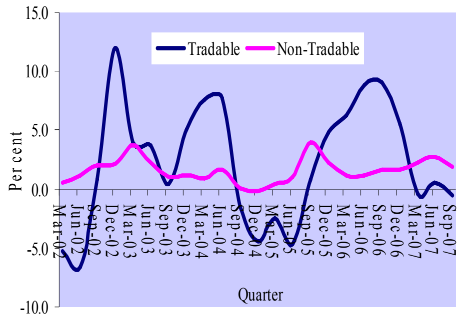
In response to the significant pressures that emerged in the foreign exchange market and to influence a reduction in Jamaican dollar liquidity, the Bank offered two special variable rate instruments and one special fixed rate instrument during the quarter. The Bank also sold US$191.2 million (net) to the market (excluding regular mining-related purchases), compared with net sales of US$59.50 million in the preceding quarter and US$145.3 million in the September 2006 quarter. The NIR at end-September 2007 was US$1 916.2 million, US$243.0 million below the programmed target and US$322.7 million below the outturn for end-June 2007 (see **Table 1.17**). The Bank's gross reserves at end-March 2006 were US$1 943.2 million representing 13.2 weeks of estimated goods and services imports.

2. Real Sector Developments

Economic growth moderated in the September 2007 quarter following average quarterly growth of 2.0 per cent for the first half of 2007. This moderation was associated with the passage of Hurricane Dean, which affected output mainly in the tradable sector. The estimated decline in the tradable sector reflected contractions in mining, tourism and agriculture. However, growth in the non-tradable sector is estimated to have been in line with its average growth of 2.1 per cent over the previous two years.

Figure 2.1

Tradables vs. Non-Tradables GDP Growth
(12-Month Change)



Aggregate Supply

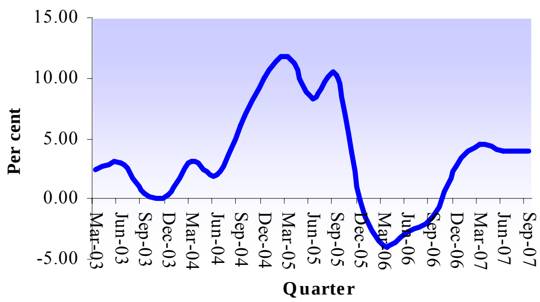
The economy is estimated to have grown in the range of 0.5 per cent to 1.5 per cent in the September 2007 quarter. This represented a moderation in growth, when compared with the average expansion of 2.5 per cent that has occurred since the September 2005 quarter. Further, growth in the quarter is estimated to have fallen below the economy's long run trend of 1.2 per cent. The slower economic growth in the September 2007 quarter was influenced by estimated sharp declines within agriculture and mining as well as a marginal contraction in the tourism industry.

The performance of the economy in the September 2007 quarter was stimulated by recovery in two sectors, continued investment spending and enhanced productivity in certain industries. In this context, the primary impetus to growth during the period emanated from ***Transport, Storage & Communications, Financing & Insurance, Manufacturing*** as well as ***Construction & Installation.*** However, the performance of the economy was tempered by reduction in capacity utilization in selected industries attributed to the passage of Hurricane Dean.

Moderation in growth due to Hurricane Dean

There was continued recovery in economic activity within ***Construction & Installation*** and ***Manufacturing*** in the review quarter. ***Construction & Installation*** is estimated to have registered a fourth consecutive quarter of growth, reflecting normalization following a recession that began in the December 2005 quarter. The growth in the sector occurred despite the mild shortage of cement supply during the period (see **Figure 2.2**).

Figure 2.2
Growth in Commercial Banks Loans: Construction & Installation
(12-Month Change)



Source: STATIN & BOJ

Growth within the sector continued to be buoyed by expansions in the telecommunication infrastructure, as well as construction activities in the tourism sector and on the North Coast Highway. Residential construction also improved during the period as indicated by an increase of 114.6 per cent in housing completions by the National Housing Trust compared to a decline of 39.5 per cent in the September 2006 quarter. In this context, growth within the quarter is estimated to have remained above the sector's long run trend of 1.2 per cent since the March 1998 quarter.

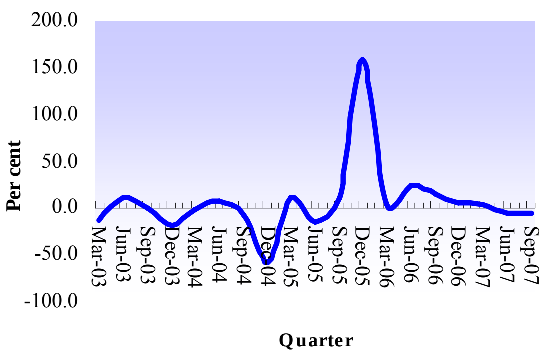
The recovery noted in ***Manufacturing*** during the review quarter, continued from the June 2007 quarter. This followed six consecutive quarters of decline mainly attributed to the closure of the tobacco company. The improvement in *Manufacturing* was facilitated primarily by growth in *food processing*, *sugar, molasses & rum* and *alcoholic beverages*. The estimated growth in *sugar, molasses & rum* was associated with the late start of the 2006/07 sugarcane reaping season, which pushed sugar production into the months of July and August.[2]

Much of the dynamism in ***Transport, Storage & Communication*** was fuelled by continued large-scale expansion in the mobile and cable services sub-sector. Growth was also driven by the water transport sub-sector, indicated by estimated increases of 5.0 per cent and 3.0 per cent in domestic cargo movements and ship calls, respectively.

The overall growth in the economy for the review quarter was dampened by contraction in three key tradable sectors, namely ***Mining***, ***Agriculture*** and ***Tourism***. The performances of these sectors were significantly affected by the passage of Hurricane Dean. The mining industry lost five days of production, while the port facilities of a bauxite/alumina company was extensively damaged. Against this background, crude bauxite and alumina production declined by 5.6 per cent and 1.8 per cent, respectively, relative to the similar period in 2006 (see **Figures 2.3** and **2.4**). In this context, capacity utilization in the alumina and bauxite industries for the quarter declined to 79.8 per cent and 89.1 per cent, respectively, from 89.5 per cent and 94.1 per cent in the September 2006 quarter.

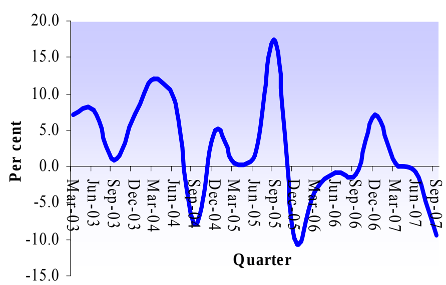
[2] Season starts December and ends in June.

Figure 2.3
Trends in Crude Bauxite Production
(12-Month Change)



Source: Jamaica Bauxite Institute

Figure 2.4
Trends in Alumina Production
(12-Month Change)



Source: Jamaica Bauxite Institute

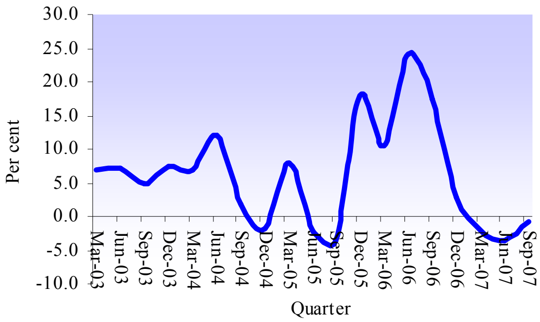
Following eight consecutive quarters of growth, ***Agriculture Forestry & Fishing*** is estimated to have contracted in the review period. Based on preliminary estimates, the sector incurred estimated losses of $1.0 billion, or approximately 0.1 per cent of nominal GDP due to the passage of Hurricane Dean[3]. Within domestic agriculture, there was damage to root crops, fruits and vegetables as well as livestock. There was however, minimal damage to farming infrastructure such as, farm buildings, irrigation facilities and farm equipment. Most of the damage to ***Agriculture*** was in export agriculture. The entire banana crop was destroyed while considerable damage was done to coffee farms. There was also minor damage to citrus and sugar cane fields. With regard to coffee, approximately 40.0 - 60.0 per cent of the crop was destroyed. Reports from the sugar industry suggest that approximately 5.0 per cent of sugar cane would be lost in the 2007/08 crop-year.

Miscellaneous Services grew marginally during the review quarter, following two consecutive quarters of declines. This performance was influenced by an estimated marginal contraction in the *hotel, restaurants & clubs* sub sector. Although the hurricane had a slight impact on the tourism infrastructure, visitor arrivals declined by 43.1 per cent during the week of the hurricane. Accordingly, for August, visitor arrivals declined by 8.1 per cent. Against this background, total stopover visitors declined by 0.7 per cent, while visitor expenditure declined by 3.4 per cent, relative to the corresponding quarter in 2006 (see **Figure 2.5**). Of note, the cruise shipping industry was not materially affected by the hurricane. The diversion of cruise ships from Jamaica occurred during the week of the disaster, however, ship calls resumed immediately after the hurricane. Accordingly, cruise passenger arrivals expanded by 5.1 per cent relative to the similar period in 2006.

Within the non-tradable sector, ***Electricity & Water*** is estimated to have declined in the review quarter. Hurricane Dean negatively affected the operations of the main power company, uprooting poles and damaging transformers. Power supply was fully restored approximately three weeks after the passage of the hurricane. In this context, capacity utilization in the industry declined by 4.3 per cent, relative to the September 2006 quarter. Electricity generation was therefore below its long run average trend growth of 3.5 per cent since the March 1998 quarter (see **Figure 2.6**).

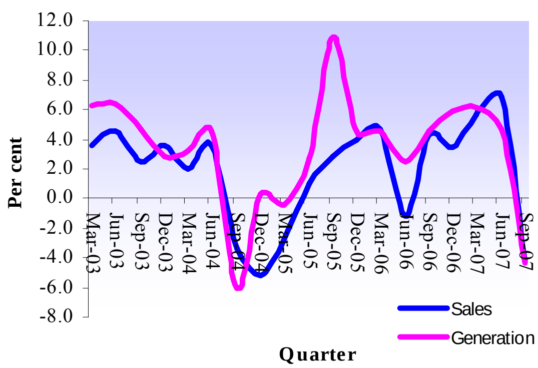
3 Source: Rural Agricultural Development Authority

Figure 2.5
Total Stopover Visitor Arrivals
(12-Month Change)



Source: Jamaica Tourist Board

Figure 2.6
Electricity Generation & Sales
(12-Month change)



Source: JPS & Bank of Jamaica

Aggregate Demand

An assessment of aggregate demand for the quarter suggests a moderate increase in spending in all components, relative to the comparable period of 2006.

There was a continuation of the robust growth observed in ***Public Consumption*** since the September 2006 quarter. The expansion continued to reflect the adjustment in public sector wages under the new public sector wage settlement.

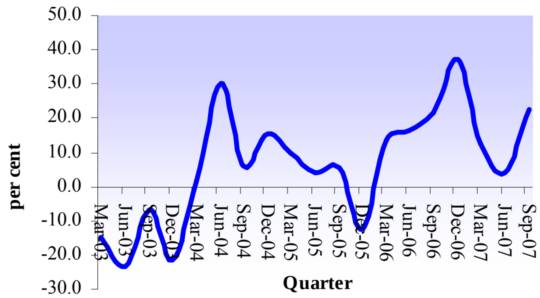
Growth in *Private Consumption*, the largest component of aggregate spending, is estimated to have rebounded in the review period following one quarter of marginal contraction. There were favourable financing conditions within the quarter as proxied by the increase in residential mortgages. The increase in consumer spending was corroborated by the continued improvement in consumer confidence as reflected in the Jamaica Conference Board's Survey of Consumer Confidence.[4] Growth in consumer confidence surged in the review period, primarily reflecting more favourable current economic conditions as well as expectations of a strengthening economy in the upcoming year (see **Figure 2.7**). This optimism was indicative of an improved outlook regarding job prospects and expected increases in income.

Gross Fixed Capital Formation continued to grow in the review quarter, albeit slower than that recorded over the preceding five quarters. This spending occurred primarily within the tourism, power and transportation industries and was financed largely by credit from domestic financial institutions. This growth in investment was corroborated by continued improvements in business confidence since the September 2006 quarter. The Jamaica Conference Board Business Confidence index rose to 134.2 from 110.1 in the comparable period of 2006, reflecting increased optimism regarding expected change in companies' finances as well as profitability (see **Figure 2.8**).

There was a marginal improvement in ***Net External Demand*** during the review period, when compared to the corresponding period in 2006 (see **Figure 2.9**). This improvement was influenced by a faster rate of increase in real exports relative to real imports. The growth in exports reflected significant expansion

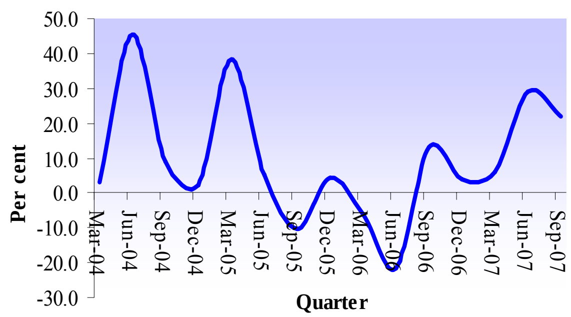
[4] Consumer confidence increased by 22.4 per cent in the review period when compared to the similar period of 2006.

Figure 2.7
Consumer Confidence Index
(12-Month Change)



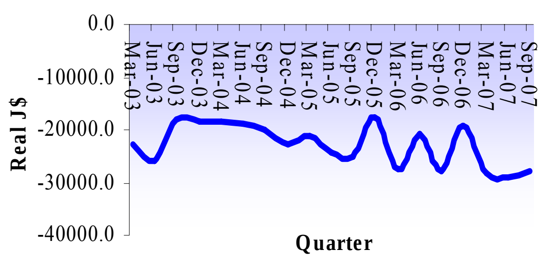
Source: Jamaica Conference Board

Figure 2.8
Business Confidence Index
(12-Month Change)



Source: Jamaica Conference Board

Figure 2.9
Trends in Net External Demand



Source: Bank of Jamaica

in ethanol and mineral fuels. However, there were offsetting impulses from services during the quarter, precipitated by the fallout in travel. With regard to imports, raw material drove the expansion in goods imports.

3. International Developments

Figure 3.1
Jamaica Terms of Trade Index
Sep 05 to Sep 07
(quarterly average)

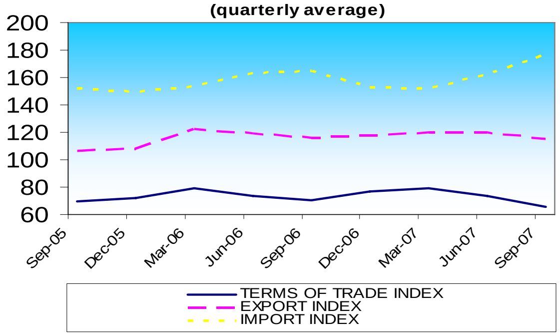


Figure 3.2
Implicit Tourism Price Index
Sep 05 to Sep 07
(quarterly average)

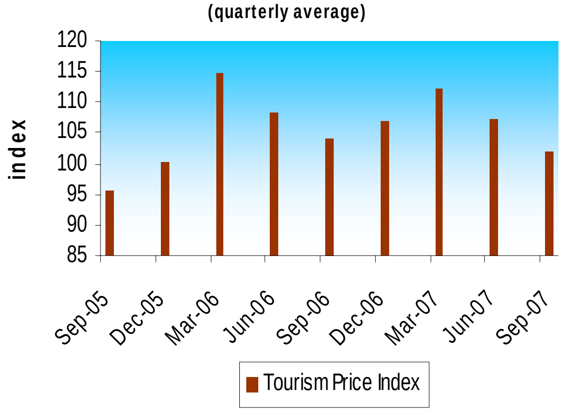
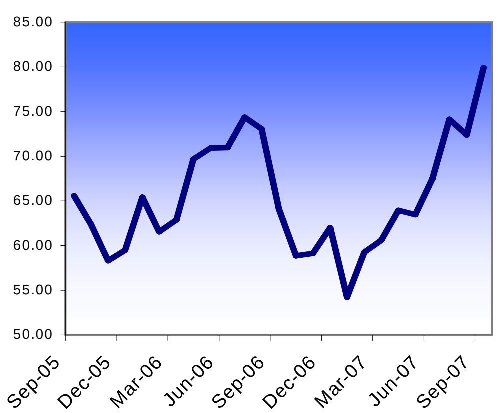


Figure 3.3 WTI Crude Oil Prices
Sep 05 - Sep 07
(monthly averages)



In the September 2007 quarter, the Jamaican economy continued to be adversely affected by developments in the international economy. International commodity prices increased during the review period influenced primarily by higher oil and agricultural raw material prices. In this context, Jamaica's terms of trade (TOT) deteriorated for the second consecutive quarter.

Interest rates were adjusted in several advanced economies. For example, the Federal Reserve (Fed) in the United States of America (USA) reduced interest rates for the first time since mid-2003. This decision reflected expectations of a slowdown in economic growth in that economy influenced by the general tightening of credit conditions triggered by the ongoing crisis in the US ubprime mortgage market. The increased uncertainty in international markets precipitated a general upward movement in the yields on emerging market bonds, including Government of Jamaica (GOJ) sovereigns.

Terms of Trade

Jamaica's TOT deteriorated during the September 2007 quarter by an estimated 6.0 per cent, relative to the preceding quarter (see **Figure 3.1**).[5] The movement in the TOT index during the review period was influenced by a 3.9 per cent increase in the Import Price Index (IPI), as well as a decline of 4.1 per cent in the Export Price Index (EPI). The movement in the IPI reflected respective increases of 16.2 per cent and 2.0 per cent in the price of crude oil and agricultural raw material prices. The contraction in the EPI was attributable to a 5.0 per cent fall in the Tourism Implicit Price Index (TIPI) (see **Figure 3.2**).[6]

Crude oil prices rose to an average of US$75.49 per barrel for the September 2007 quarter, representing the largest increase in prices since the September 2005 quarter (see **Figure 3.3**). The movement in prices

[5] 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.
[6] The Tourism Implicit Price Index measures the ratio of the average tourist expenditure to their average length of stay.

Table 3.1

Selected Key Interest Rates

Jun 07 – Sep 07

	Jun	Jul	Aug	Sep
USA[a]	5.25	5.25	5.25	4.75
Euro Area[c]	4.00	4.00	4.00	4.00
Canada[b]	4.50	4.50	4.50	4.50
UK[c]	5.75	5.75	5.75	5.75
Japan[d]	0.50	0.50	0.50	0.50

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

during the quarter was influenced primarily by continued supply concerns in the market. The closure of several oil fields in the North Sea during July and August adversely impacted supply, which was reflected in a 1.6 per cent decline (5.4 million barrels) in crude oil inventories and a subsequent 9.9 per cent increase in prices in September. Weather risks also added upward pressure to prices. The price of oil rose to a record high of US$83.36 per barrel on 21 September on concerns of potential damage to oil fields in the Gulf of Mexico by a tropical depression which developed off the coast of Florida. Additionally, the depreciation of the US dollar threatened reduced oil company revenues, prompting the raising of prices to maintain profits.

The rise in agricultural raw material prices during the quarter mainly reflected respective increases of 24.6 per cent and 34.1 per cent in the prices of soft red winter (SRW) and hard red winter (HRW) wheat. There were also increases in the prices of soybeans. The movement in wheat prices reflected a fall in world supply due to adverse weather conditions in the Midwest U.S.

Monetary Policy

Several key interest rates among selected advanced economies were adjusted during the review quarter (see **Table 3.1**). In the USA, the Fed reduced their target interest rate by 50 basis points (bps) to 4.75 per cent in September. The Fed's decision was influenced by the modest rate of economic growth experienced during the first half of 2007, as well as the threat that the tightening of global credit conditions as a result of the subprime housing crisis could further restrain economic growth. The Fed, and several other central banks also injected liquidity into short-term money markets to address the tightness in the credit market.

In contrast to the lowering of rates by the Fed, both the Bank of England (BoE) and Bank of Canada (BoC) raised their benchmark interest rates by 25 bps during July in response to increasing inflationary pressures. The European Central Bank (ECB) and the Bank of Japan (BoJ) kept their official interest rates unchanged at 4.00 per cent and 0.50 per cent, respectively. The ECB, however, indicated that monetary tightening might be necessary in the near-term to assuage rising inflationary pressures. For the BoJ, the interest rate stance was influenced by continued concerns about low inflation and the risk that the tightening financial market conditions could adversely affect the economy.

Figure 3.4
US Treasury Yield Curve

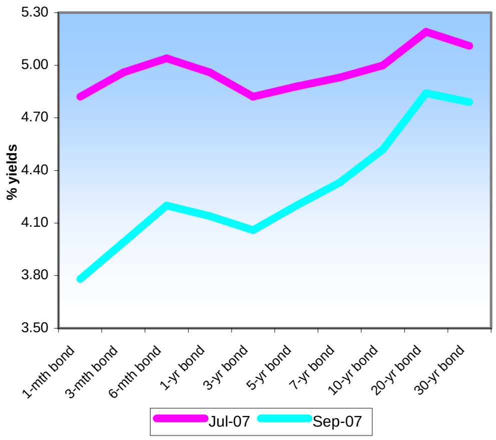
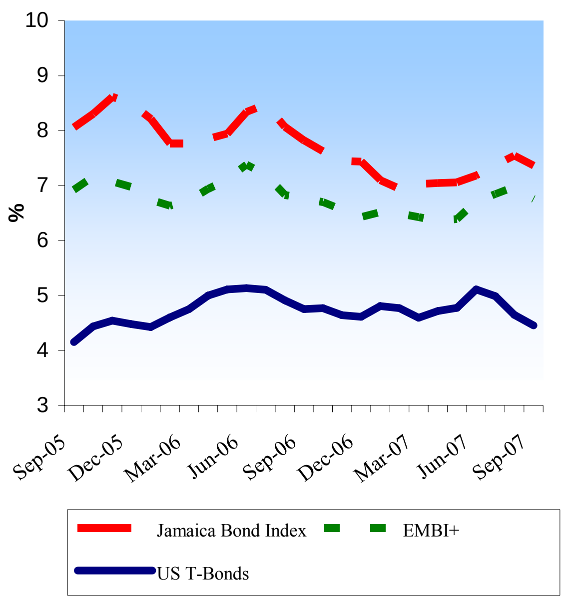


Figure 3.5
Global Bond Yields
Sep 05 to Sep 07



Private Market Rates

The yields on short-term US Treasury Bills fell by 44.0 bps to average 4.45 per cent during the September 2007 quarter. The yields on longer-term US securities, also declined by 23 bps to average 4.56 per cent, relative to the previous quarter (see **Figure 3.4**). The downward movement in the US Treasury bills yields reflected investors' increased demand for relatively safer assets during the subprime crisis. Consistent with the disruption in the credit markets, interest rates in the international financial market, as indicated by the London Inter-bank Offer Rate (LIBOR), rose by 18.2 bps.

Emerging Market Bonds

Yields on emerging market bonds, as measured by the JP Morgan Emerging Market Bond Index Plus (EMBI+), increased by 4.0 bps to 6.76 per cent at the end of the review quarter. Similarly, the yields on GOJ US-dollar- and GOJ Euro denominated sovereign bonds increased by 18.0 bps and 122.0 bps, respectively. These movements resulted in a widening of the spread between GOJ global bonds and US benchmark rates. (see **Figure 3.5**). The fall in the demand for overall emerging market bonds reflected the redefinition of the price of risks in all markets and the consequent unwillingness of investors to hold riskier securities. There was, however, a noticeable improvement in market conditions in September following the intervention of several central banks in the developed economies.

Foreign Exchange Market

The US dollar depreciated to record lows against all selected major currencies during the review period. The Canadian dollar appreciated by 5.1 per cent against the US dollar during the quarter influenced primarily by an improved current account, principally associated with higher oil prices. Additionally, the expectations of further monetary tightening also placed upward pressure on the Canadian dollar. Similarly, the US dollar depreciated by 5.18 per cent against the Euro, reflecting market sentiments of future monetary loosening by the ECB. The US dollar depreciated against the Japanese Yen by 7.3 per cent, as a result of investors' unwinding of carry trade positions as liquidity conditions tightened. The US dollar also depreciated by 1.63 per cent against the Great Britain Pound in a context of monetary tightening by the BoE during the quarter.

Box 1: ***The Recent Turbulence in the US Sub-prime Mortgage Market***

The global financial market was characterized by instability in 2007, particularly since end-July. This was reflected in a sharp increase in global interest rates, as represented by the London Inter-bank Offer Rate (LIBOR), particularly in August (see Figure 1). Similarly, there was a decline in the demand for emerging market bonds.

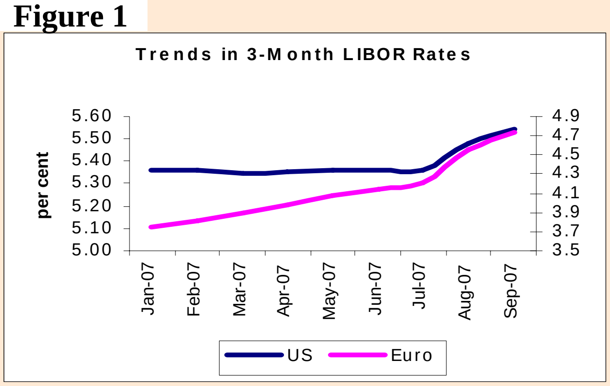
This instability was triggered by rising uncertainty about the likely impact, and the extent, of the ongoing turmoil in the U.S. sub-prime mortgage market on the balance sheets of companies, and ultimately, real activity.

A number of leading finances houses across the world have been adversely affected by the current turmoil due to a concentration in exposure to sub-prime securitization or their business financing strategies were highly dependent upon leverage. This has prompted various policy actions by the major central banks in the advanced economies, including direct liquidity support to institutions and the wider market, as well as central bank interest rate adjustments.

Background

Sub-prime mortgages are housing loans extended to borrowers who are perceived to have a high credit risk, often because they lack a strong credit history or have other characteristics that are associated with high probabilities of default.

Figure 1



The market for sub prime mortgages in the USA began to expand rapidly in the mid-1990s. Subprime originations were estimated at US$600.0 billion in 2006, approximately 21.0 per cent of all mortgage originations.[7] This represented a significant increase relative to the 9.0 per cent share recorded in 2003. At end 2006, overall subprime mortgage loans were estimated at approximately US$2.0 trillion or 15.0 percent of U.S. GDP.

The increased popularity of this market during the first half of the 2000s reflected the impact of rising house prices in the U.S which was influenced by historically low interest rates. The demand for subprime mortgages was also spurred by innovations that reduced the cost to lenders for assessing and pricing risks. These innovations included the introduction of automated underwriting and securitization.[8] Securitization facilitated market growth by dispersing risk, while providing investors with a supply of highly-rated securities with enhanced yields. In this process, mortgages are usually lumped together in tranches, leveraged and resold as collateralized debt obligations (CDOs) all over the world.

The development of CDOs opened the origination business to non-depository specialty finance companies. Banks, institutional investors and hedge funds were the main customers. However, retail investors also bought into the CDO market through asset-backed securities (ABS). The attractiveness of these instruments was influenced by the fact that they were considered to be relatively safe, since much of the paper had AAA ratings and offered higher returns than regular corporate bonds.

In the fourth quarter of 2006, approximately 310 000 foreclosure proceedings were initiated in the USA, whereas for the preceding two years the quarterly average was 230 000. Subprime mortgages accounted for 50.0 per cent of these foreclosures. At end-2006, the rate of delinquency in the

7 The process through which a mortgage lender creates a mortgage secured by some amount of the mortgagor's real property.

8 The process of creating a financial instrument by combining other financial assets and then marketing them to investors.

subprime adjustable-rate mortgage (ARMs) market was 10.0 per cent. By June 2007, this rose to 14.0 per cent.

The sharp rise in delinquencies among subprime ARMs had a number of causes:

- In the context of the progressive increase of the Federal Reserve (Fed) target rates there was a gradual increase in interest rates on ARMs loans. In addition, after rising at an annual rate of 9.0 per cent from 2000 through 2005, house prices began to fall in 2006, possibly reflecting the impact of the monetary tightening. This suggested that some subprime borrowers with ARMs, who would have been able to utilize refinancing before their payments rose, consequently did not have enough home equity to qualify for new loans.

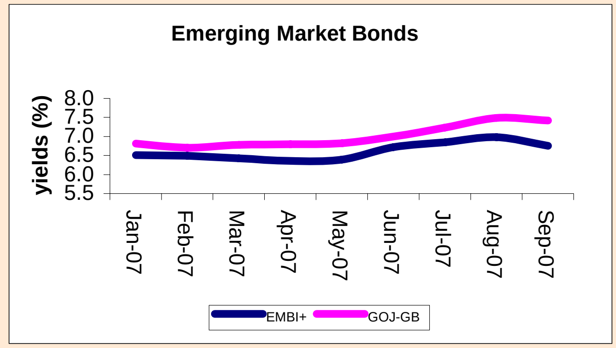
- As the pace of mortgage originations began to slow, investor demand for securities with high yields led some banks to loosen underwriting standards. The looser standards were an important source of the pronounced rise in “early payment defaults’ (defaults occurring within a few months of origination) among several subprime ARMs originated in 2006.

Impact

Rising delinquencies among mortgagers resulted in widespread attempts by investors to unwind positions in CDOs. This led to a credit crunch as financial institutions in the advanced economies became reluctant to lend to each other, in the context of increased uncertainty about who had large exposures to US subprime mortgages. This prompted a redefinition of the price of risk in all markets, which resulted in significant increases in the yields for relatively risky assets.

Of note, the yields on other emerging market economies sovereigns, as measured by the JP Morgan EMBI+ index, rose by an average of 13 basis points (bps). Similarly, the yields on the Government of Jamaica’s global bonds, as measured by JP Morgan, rose by an average of 44 (bps) during August 2007 (see **Figure 2**).

Figure 2



The sub-prime crisis, as at October 2007, had affected mostly banks with subprime-specialist subsidiaries and a number of specialty finance companies. Preliminary information suggests that losses accrued by these institutions as a result of this crisis approximate US$100.0 billion. This included investment banks such as Goldman Sachs, Lehman Brothers, Citigroup, Merrill Lynch and Morgan Stanley.

Sub-prime related losses were not restricted to the U.S., as financial institutions outside of the U.S. had holdings of mortgage backed assets, or they were affected by the unavailability of credit. On 13 September, Northern Rock, a large mortgage bank in the United Kingdom, approached the Bank of England (BoE), as lender of last resort, for an emergency funds facility due to problems in raising funds in the money market to replace maturing money market borrowings. In Australia, Basis Capital's "Basis Yield Alpha Fund" on 26 August applied for bankruptcy protection arising from the exposure to the subprime mortgages.

In the context of the significant losses that was faced by some large banks and the need to access emergency assistance, there has been upward pressure on inter-bank lending rates in the advanced economies. There also has been a reduction in the supply of credit. This ultimately will lead to a reduction in global consumption spending and ultimately world growth.

Policy Response

In response to the subprime crisis, institutions have been forced to introduce tighter lending standards, thereby inhibiting investments. In this context, many central banks around the world repeatedly injected liquidity into short-term money markets. Market information suggest that the Federal Reserve, the BoE, European Central Bank, Bank of Australia and the Bank of Japan have injected, mainly through short-term collateralized loans to banks, approximately US$800.0 billion into the global money markets between August and mid-October. Some central banks have also lowered their target or discount rate and in some instance both, in order to boost the supply of credit.

Regulatory authorities have also called for a review of the current framework for disclosure. They have also highlighted that the issue of improving both qualitative and quantitative information about how risks are accounted for, managed and valued must be addressed for a sounder financial system. A recommendation has also been made for a deeper scrutiny of the valuation of risks by rating agencies.

4. Inflation

Figure 4.1
Quarterly Inflation Rate

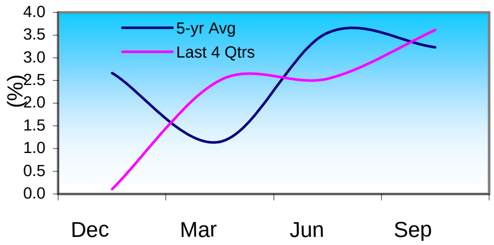


Figure 4.2
Inflation
(12 Month Pt-to-Pt & Quarterly Rates)

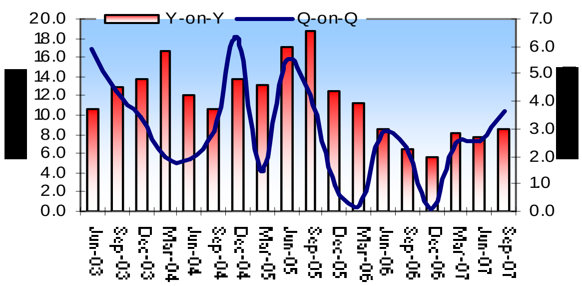
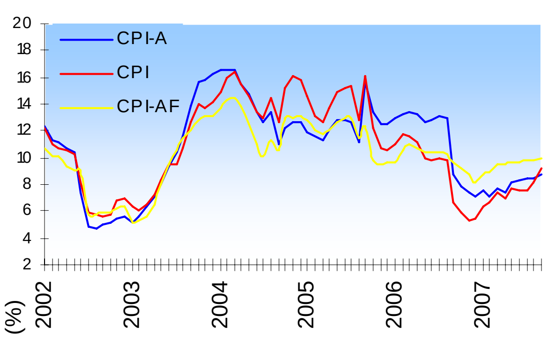


Figure 4.3
Selected Measures of Inflation



Headline inflation, as measured by the new CPI basket, was 3.6 per cent for the September 2007 quarter relative to 2.5 per cent for the preceding quarter. Inflation for the quarter was above the average of 2.9 per cent for the previous five September quarters, after abstracting from the impact of two administered price increases, and in particular, was above the 2.4 per cent attained in the September 2006 quarter. The higher inflation in the September2007 quarter reflected increased prices for agricultural products as well as the lagged effects of higher international commodity prices.

Underlying inflation as measured by the CPI excluding agriculture and energy (CPI-AF) was 2.3 per cent, similar to the previous quarter but higher than the rate in the September 2006 quarter. The monthly core inflation during the quarter points to an increase in underlying inflation.

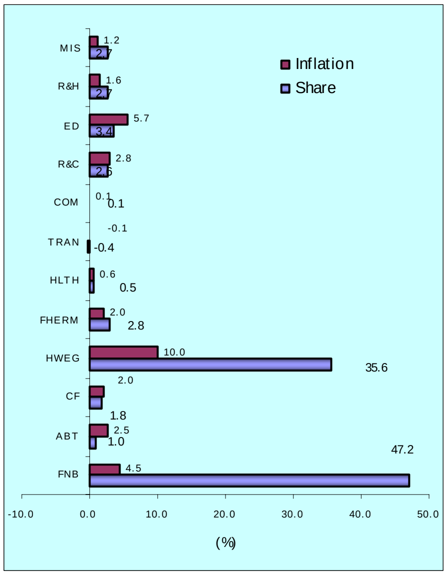
Trends in Price Indices

The new All Jamaica Consumer Price Index (see **Box 2**) increased by 3.6 per cent in the September 2007 quarter. The outturn for the quarter exceeded the average increase of 2.9 per cent for the September quarters of the last 5 years, abstracting from the administered price increases effected in 2003 and 2005 (see **Figure 4.1**). On a monthly basis, inflation was 1.0 per cent in July and August and 1.6 per cent in September. Inflation for the calendar year to September was 8.9 per cent relative to 5.5 per cent in the previous year. For the fiscal year to September, inflation was 6.2 per cent compared to 5.3 per cent in the prior comparable period.

Underlying Inflation

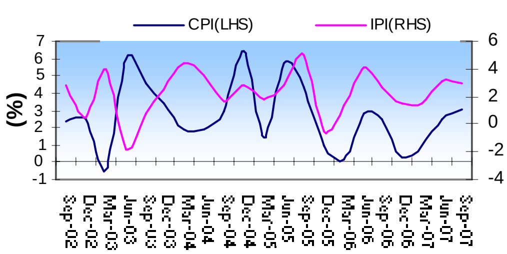
The downward trend in monthly core inflation observed since January 2007 was reversed during the September 2007 quarter. Underlying or core inflation as measured by the CPI, excluding agriculture and the direct impact of fuel (CPI-AF), was 2.3 per cent for the quarter. This was similar to the outturn for the previous quarter but above that recorded in the September 2006 quarter. Similarly, the twelve-month CPI-AF inflation as at September 2007 was 10.0 per cent compared to 9.7 per cent in September 2006. On a monthly basis, CPI-AF inflation rose to 0.9 per cent in September from 0.6 per cent in July. This trend reflected increases in core durables and services, as well as non-agricultural food prices. These increases can be attributed to the pass-through of the exchange rate and the rise in oil prices as well as some heightened demand pressures.

Figure 4.4
Inflation by Division



MIS= Miscellaneous Goods & Services, R&H=Restaurants & Hotels, ED=Education, R&C=Recreation & Culture, COM=Communication, TRAN= Transporttion, HLTH=Health, FHERM=Furniture, Household Equipment & Routine Household Maintenance, HWEG=Housing, Water, Electricity, Gas & Other Fuels, C&F=Clothing & Footwear, ABT=Alcohol, Beverages & Tobacco, FNB=Food & Non-Alcoholic Beverages

Figure 4.5
Import Price Index (IPI) and Inflation



The CPI excluding agriculture (CPI-A), declined to 2.4 per cent in the review quarter, from 2.9 per in the June quarter. However, the annual point-to-point measure of the CPI-A was 8.8 per cent, similar to the outturn in the previous year.

Main Inflationary Factors

The main contributors to inflation in the review quarter were higher prices for agricultural produce, international grain and crude oil and lagged pass-through of previous increases in energy costs. The impact of some of these factors was exacerbated by the depreciation in the exchange rate of the Jamaican currency. There were also adjustments in tuition fees which reflect the cumulative impact of higher operational costs during the year.

Domestic Supply Conditions

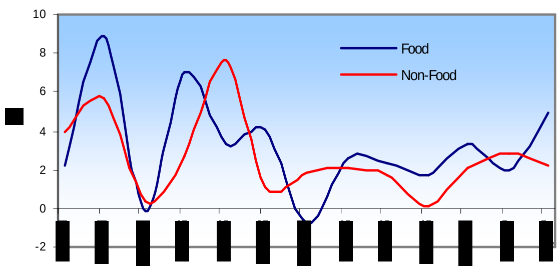
Consequent on damage caused by the passage of Hurricane Dean, the supply of domestic agricultural commodities contracted during the quarter (See **Real Sector**). As a result, *Vegetables & Starchy Foods* rose by 14.6 per cent during the September quarter. This was the strongest inflationary impulse in the quarter and was largely responsible for the movement in **Food & Non-Alcoholic Beverages** in the quarter. This division grew by 4.5 per cent and contributed 47.2 per cent to overall inflation.

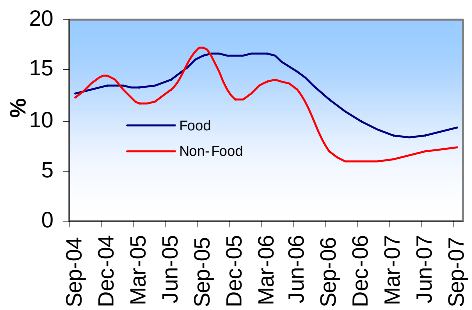
In the context of these agricultural supply shocks, there was a sharp increase of 4.9 per cent in the Bank's Quarterly Food Index relative to a 2.0 per cent increase in the June quarter and 2.2 per cent in the September 2006 quarter (see **Figures 4.6a & b**).

Imported Inflation

Imported inflation, as measured by changes in the Bank's Import Price Index (IPI), was 2.9 per cent for the September quarter. This followed an increase of 3.1 per cent for the June 2007 quarter and a 2.7 per cent increase in the September 2006 quarter (see **Figure 4.5**). One of the key commodity prices influencing the movement in the Index was that of the benchmark West Texas Intermediate crude oil. Its average price rose by 16.2 per cent in the September quarter following an 11.9 per cent increase in the prior quarter (see **International Developments**). These movements spurred increases in the energy-related components of the domestic CPI basket (see **Figures 4.6** and **4.7**).

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





Quarterly Chg. in Fuel Index & WTI

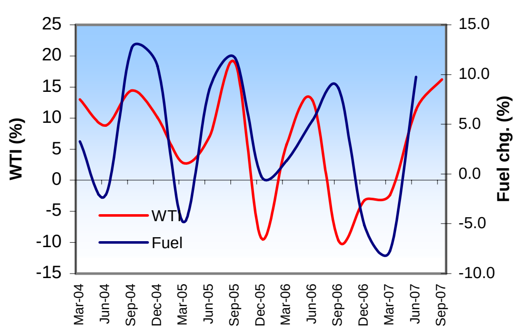
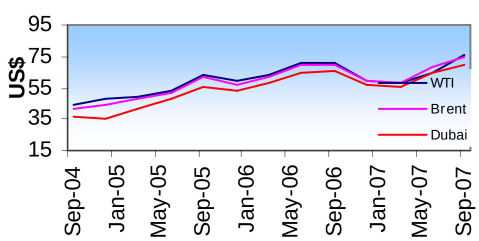


Figure 4.8

Average WTI Crude price (US$) per barrel



In particular, there was a sharp increase in electricity rates during the quarter consequent on a steep rise in fuel charges by the electric utility company and the slippage in the exchange rate. Residential electricity rates increased by 11.8 per cent over the quarter, a result of a sharp 19.0 per cent increase in fuel charges and 3.2 per cent depreciation in the exchange rate. Household fuels also reflected the impact of the developments in international energy prices. Chiefly as a result of these factors, **Housing, Water, Electricity, Gas & Other Fuels** increased by 10.0 per cent, contributing 35.6 per cent to inflation during the quarter.

The change in the IPI in the review quarter was also influenced by the increases in the international prices of food raw materials such as wheat. The average price of US Hard and Soft Red winter wheat increased by 33.6 per cent and 43.0 per cent, respectively, in the quarter. The increased cost of grains affected key classes in the **Food** group, chief of which were *Fish & Seafood, Bread & Cereals* and *Meat.* The movement in the price of commodities in this group also reflected the impact of the higher energy cost on the processing and storage of meats as well as the production of feed. Consequent on the foregoing, *Fish & Seafood, Bread & Cereals* and *Meat* increased by 3.0 per cent, 3.0 per cent and 2.0 per cent, respectively, and collectively contributed 13.8 per cent of the quarter's inflation.

Other Developments

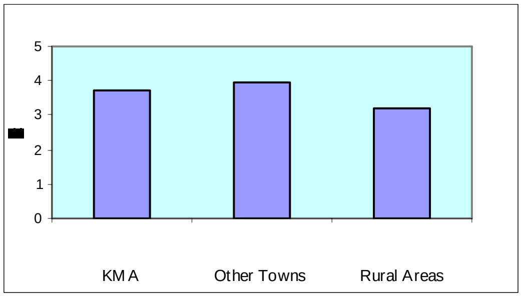
Coinciding with the start of the new academic year, preparatory school tuition fees increased significantly in the September quarter. This was the principal factor explaining the expansion of 5.7 per cent in **Education,** which contributed 3.4 per cent of the quarter's inflation.

Additionally, the rising cost of food affected other divisions of the CPI, especially, **Restaurants & Hotels**, where there was a 1.6 per cent increase for the quarter. This contributed 2.7 per cent of the overall inflation in the quarter.

Regional Inflation

There was uniformity in inflation across the three regions during the September quarter. The indices of the Greater Kingston Metropolitan Area (GKMA) and Rural Areas recorded inflation of 3.7 per cent and 3.2 per cent, respectively, while the index for the Other Urban Centres (OUC) was 3.9 per cent. For the

Figure 4.9
Geographical Distribution of Inflation



year to September, prices rose by 9.5 per cent and 9.4 per cent in the GKMA and the OUC, respectively, while within the Rural Areas, prices increased by 8.1 per cent. This difference primarily reflected sharper increases in the year in *Meat* and *Vegetables & Starchy Foods* in the GKMA and the OUC.

Box 2: *The Revised Consumer Price Index*

Introduction

In September 2007, the Statistical Institute of Jamaica (STATIN) launched the Revised Consumer Price Index 2007. The new index is based on a revised basket of consumption goods and services, which is more representative of current expenditure patterns. There are an additional 200 commodities in the revised basket, which bring the total number of commodities to 480. The base period for the new index is December 2006. This box highlights some of the salient differences between the old and the new CPI. These differences include the income level upon which the new basket is based, structure and weights, method of calculation, regions and trends in inflation.

Income Levels

As with the old CPI, the new basket relates to lower and middle income households of a particular income level, representing 85.0 per cent of all households. In the new basket this income level corresponds to households with a median annual expenditure of J$309,000.00 in 2004/2005. This is in contrast to the former index, in which the annual expenditure level for low and middle income households was capped at $24,000.00 in 1988, which at current prices is equivalent to $554,571.00.

Classification Structure & Weights

One of the major changes in the new CPI is the classification structure. The CPI is now structured according to the United Nation's consumption based classification system, the Classification of Individual Consumption According to Purpose (COICOP). Under this new structure, there are four categories (see **Table 1**). Also, whilst there were 8 major groups in the old CPI, the new series has 12 broad expenditure divisions (see **Table 2**). The 12 *Divisions* in the COICOP classification system are broken down into 23 *Groups* f related items. These groups are further broken down into *Classes*, which are combinations of similar items.

Table 1: Comparative Classification Structure

Old CPI	New CPI
-----	Divisions
Groups	Groups
Sub-groups	Classes
Commodities	Commodities

Source: Statistical Institute of Jamaica

***Table 2:** COICOP DIVISION AND GROUP*	*Weight 2004/5*	*Weight 1984*
01 Food & Non-alcoholic Beverages	**37.4**	**45.9**
02 Alcoholic Beverages & Tobacco	**1.4**	**3.9**
03 Clothing & Footwear	**3.3**	**4.9**
04 Housing, Water, Electricity, Gas and Other Fuels	**12.8**	**10.2**
05 Furnishings, Household Equipment & Routine Maintenance	**5.0**	**7.1**
06 Health	**3.3**	**1.4**
07 Transport	**12.8**	**6.2**
08 Communication	**4.0**	**0.5**
09 Recreation and Culture	**3.4**	**3.8**
10 Education	**2.1**	**1.1**
11 Restaurants and Hotels	**6.2**	**7.8**
12 Miscellaneous Goods and Services	**8.4**	**7.2**
TOTAL	**100.0**	**100.0**

Table 2 also shows the weights for the new CPI juxtaposed with the weights from the old CPI, which were reworked to reflect the new classification structure. There has been an increase in the importance of services such as health, housing, transportation and other utilities, while the weight for food and beverages is lower. This reflects the fact that with higher levels of income, the share of a person's total expenditure on food usually declines. One implication of this new weighting structure is that movements in international oil prices and the exchange rate will have a greater impact on measured inflation.

Calculation of Average Prices and Other Changes

Consistent with one of the recommendations of the International Labour Organisation's CPI manual, the geometric mean is used to calculate average prices for the revised basket instead of the arithmetic mean[9]. The geometric mean is less susceptible to distortion caused by extreme values and is more appropriate for calculations such as rates of growth. As a result, there should be a more precise representation of price movements. There are also changes in the adjustment methods for missing prices and for quality changes.

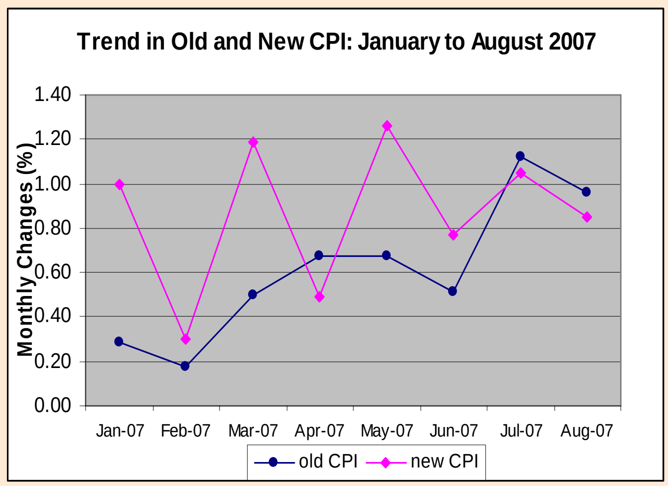
Geographical Regions

Given changing patterns of urbanization, modifications were made to the nomenclature as well as to some of the constituents of the regions for the CPI. The Kingston Metropolitan Area of the former series, which encompassed Kingston, Urban St. Andrew, Portmore and Spanish Town, was renamed the Greater Kingston Metropolitan Area (GKMA). The GKMA now includes a fairly wide area encompassing the coast at the western boundary of the Hellshire Hills in St. Catherine, northerly to include Spanish Town and Caymanas Estate, northeasterly and northerly into parts of St. Andrew, all of the parish of Kingston and then south east and easterly to include parts of St. Thomas[10]. The Other Towns of the old series is now the Other Urban Centres (OUC) and includes the parish capitals and 32 other urban centre across the country. The Rural Areas represent all the remaining areas not identified as being part of the GKMA and the Other Urban Centres. This regional classification is consistent with the geographical classification from the 2001 Population Census.

Comparison of the Trend in the Old and New Series

The revised series of the Consumer Price Index reflected an inflation rate of 8.9 per cent for the calendar year to September, compared to 5.5 per cent in the old series. For the fiscal year to September, the rate of inflation using the new series was 6.2 per cent in comparison to 5.3 per cent under the old series. The difference in the inflation rates was mainly attributable to changes in the relative importance or weights of the commodities in the basket of consumer goods and services. In particular, the cost of energy has gained greater significance while the importance of agricultural produce has declined. Consequently, the countervailing impact of the falling agricultural prices at the start of the year was less than before. At the same time, rising energy costs since the start of the year added greater impetus to the inflation rate. The price movements in additional commodities, particularly beverages, were also a contributing factor.

Figure 1: Comparison of the New and Old CPI



[9] The geometric mean of four values, p_1, p_2, p_3, and p_4 is $\sqrt[4]{(p_1 * p_2 * p_3 * p_4)}$ while the arithmetic mean is the simple average.

[10] For details see "Consumer Price Index – Revised Series: January to June 2007", Statistical Institute of Jamaica, September 2007.

5. Economic Outlook and Monetary Policy Perspectives

Table 5.1

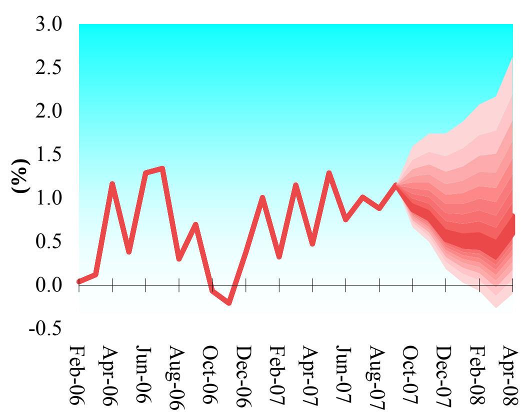
Jamaica: Selected Economic Indicators

	Projections for Dec'07 Quarter	*Projections for FY07/08*	*Original Target for FY07/08*
Inflation (% change)	3.3 – 4.3	12.0 – 13.0	7.0 – 8.0
Base Money (% change)	22.6	13.9	11.1
NIR End Period (US$MN)	1708.4	1491.1	2216.1
GDP (12-mth % chg.)	+ve	1.5 – 2.5	2.0 – 3.0

The inflation rate, target and projections, reflect the revised price changes from the new basket (December 2006 = 100).

Figure 5.1

Monthly Inflation Forecasts



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

Headline inflation for the December 2007quarter is expected to be similar to the outturn recorded in the September 2007 quarter, within the range of 3.3 per cent to 4.3 per cent. The projected inflation for the fiscal year 2007/08 will be significantly higher than programmed due to a number of exogenous factors, particularly in the September 2007 quarter. These factors include shocks to energy and agriculture commodity prices.

Economic growth is projected to strengthen in the December 2007 quarter albeit lower than the growth recorded in December 2006. The main drivers of this growth are Services and Construction & Installation.

The main policy challenge for the Central Bank during the December 2007 quarter will be to ensure orderly adjustments in the foreign exchange rate and the maintenance of a stable macroeconomic environment consistent with long-term growth.

Outlook - December 2007 Quarter

Inflation

Headline inflation for the December 2007 quarter is projected to be within the range of 3.3 per cent to 4.3 per cent. With this forecast, and the higher than anticipated inflation outturn in the September 2007 quarter, the revised inflation projection for the fiscal year is in the range of 12.0 per cent to 13.0 per cent, relative to the original programme target of 7.0 per cent to 8.0 per cent.

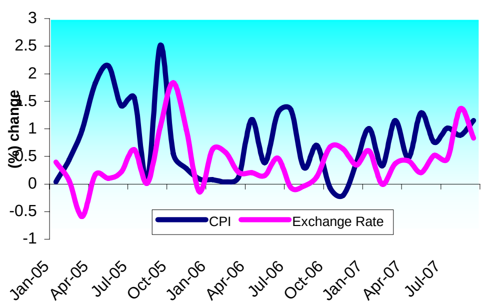
The main drivers of inflation during the December 2007 quarter are expected to be cost push factors from the September quarter such as international commodity price movements and the accelerated depreciation in the exchange rate as well as the supply shock to agricultural prices. There could also be some demand pull inflationary pressures given the above trend growth in output for most of 2006 and the first half of 2007. These demand pull pressures have been evidenced by a worsening current account deficit due to a significant growth in imports. The risks to the inflation forecast are skewed to the upside (see **Figure 5.1**). These risks include higher than projected increases in international commodity prices, supply shocks due to more adverse weather conditions and shocks to the foreign currency market.

The upward trend in international commodity prices is expected to continue.

Imported inflation is anticipated to be higher in the December 2007 quarter than in the September quarter, consequent on the strong movements in international oil and grains prices. The Bank projects that the average price of crude oil for the December 2007 quarter, as measured by the West Texas Intermediate (WTI), will increase by approximately 21.9 per cent, relative to the September 2007 quarter. This follows the 16.2 per cent increase in the September 2007 quarter and contrasts sharply with the seasonal average decline of 3.2 per cent over the last three years. The projected increase reflects the impact of the weaker US dollar against the major currencies, as well as concerns about inventory levels and security of supplies in the Middle East.

Figure 5.2

Trends in Changes in the Exchange Rate and Headline Inflation



The diagram depicts the changes in the monthly end of period exchange rate and monthly headline inflation.

Due to increased world demand and significant shortfalls in supply, wheat prices are expected to continue to rise. Corn prices should also increase as producers substitute corn for wheat at the same time that there is a growing demand for corn for ethanol production. However, soybean prices could fall as a result of favourable supply conditions. As the prices of wheat and corn increase, it is anticipated that the domestic prices of meat and baked products would also continue to rise, particularly in the high demand Christmas holiday period.

The impact of the increases in international commodity prices on domestic inflation in the December 2007 quarter will be exacerbated by the pass-through of the higher than anticipated depreciation in the exchange rate for the first three quarters of 2007. Since the beginning of FY2007/08, the foreign currency market has been displaying a heightened level of volatility reflecting increased portfolio switching by investors in a context of narrower interest rate spreads and higher Jamaica Dollar liquidity. Depreciation in the March, June and September 2007 quarters were 1.0 per cent, 1.1 per cent and 2.6 per cent, respectively. These outturns were higher than their respective seasonal averages of 0.8 per cent, 0.8 per cent and 1.7 per cent.[11]

Improved inflows of foreign exchange will assuage the impact of the expected increased seasonal demand..

The foreign exchange market in the December quarter will be affected by increased demand for imports of consumer durables for the holiday season. In addition, the attractiveness of unregulated foreign currency investment schemes as well as the volatility in the exchange rate since the beginning of the year will continue to influence private portfolio capital outflows.

[11] The seasonal average is calculated from the year 2000 and excludes the depreciation in the year 2003 due to the unusual instability that occurred in that year.

Figure 5.4

Inflation Expectations

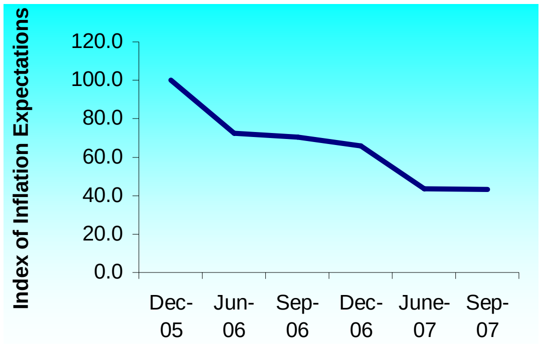


Figure 5.5

Present Business Expectations

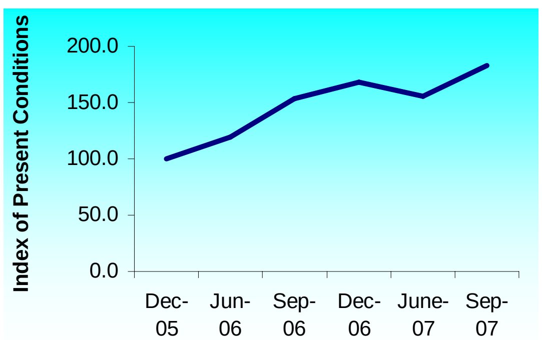
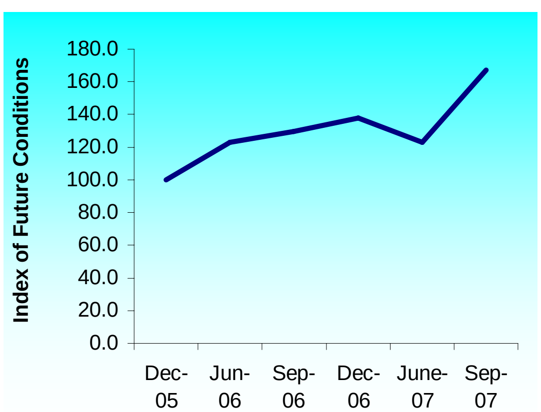


Figure 5.6

Future Business Conditions



However, the impact of these demand factors on the exchange rate will be moderated by an anticipated increase in inflows from visitor arrivals and remittances.

Real GDP in the December 2007 quarter is expected to strengthen but will be below the average growth over the past two years. The Bank's survey of the private sector's assessment of the current conditions and future prospects of the economy remains positive (see **Figures 5.4 to 5.6**). The companies surveyed on average expect economic growth in the range of 2.1 per cent to 2.6 per cent for the year 2007.

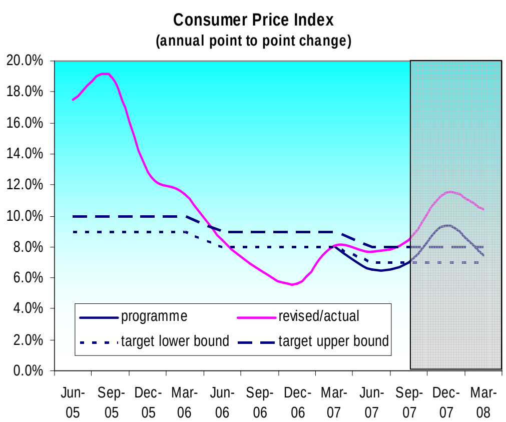
The main drivers of the expansion in GDP in the December 2007 quarter should be *Construction & Installation* and services, particularly *Miscellaneous Services*. Stronger growth in *Construction & Installation* is anticipated as the shortage in cement supply that occurred in September 2007 was short lived. The expansion in *Miscellaneous Services* reflects recovery in tourism. Other sectors that should contribute to the economy's expansion include *Financing & Insurance Services, Electricity & Water, Transportation, Storage & Communication; Real Estate & Business Services* and *Distributive Trade*. Growth in the quarter will be tempered by continued decline in agriculture.

There could be some demand pressure on prices from the impact of increased real sector activity in 2006 and the first half of 2007 on real incomes. However, the main impact of real sector activity on prices will emanate from the supply shock as a result of the passage of Hurricane Dean. This had a significant negative impact on the agricultural sector, particularly the production of fruits and vegetables. These crops are not expected to recover sufficiently to meet the high demand associated with the Christmas holiday period. The output of tubers was also affected by the hurricane and should continue the trend decline in supplies observed since the beginning of the fiscal year. Although imports of these crops might help to mitigate the price increases, the December quarter should be marked by a reversal in the trend decline in agriculture prices.

The main risks to the inflation projection for the December 2007 quarter are greater than anticipated increases in oil prices, adverse weather conditions and continued volatility in the domestic foreign currency market. Forecasts of increased Atlantic storm activities imply that there remains the risk from possible damage to output and infrastructure, particularly in the months of October and November. Oil prices have already reached record highs as a result of increased global demand, shocks to supply and heightened geopolitical tensions in some oil producing nations. The resulting tight oil market implies increased sensitivity of prices to any extraneous factor. Improvements in the factors that underpinned the volatility in the foreign currency market over the September quarter should result in a gradual reduction in the pace of depreciation in the December quarter. However, there still remains some uncertainty in the global financial markets as they adjust to the recent sub-prime market crisis in the US.

Based on the projected inflation for the December quarter, the forecast for FY2007/08 is within the range of 12.0 per cent to 13.0 per cent. This revised fiscal year outlook, relative to the original programme target of 7.0 per cent to 8.0 per cent, reflects significant revisions to the forecast for imported inflation and the supply shock occasioned by the passage of Hurricane Dean.[12] These factors are expected to be temporary and as such inflation should decline to the targeted levels over the medium term. This return to target levels over the medium term is supported by falling inflation expectations (see **Figure 5.4**). The pattern of expectations might be attributed to the success of the Bank's monetary policy strategy to significantly reduce inflation rates to target levels despite a preponderance of shocks to the economy (see **Figure 5.7**).

Figure 5.7



Monetary Policy

The main challenge for the Central Bank in the December quarter is to ensure orderly conditions in the foreign exchange market, given the pressures on the external accounts arising from higher imports as well as less than buoyant net private capital inflows. In the context of a projected decline in reserves and heightened inflationary pressures, measures to effectively restrain domestic expenditure are warranted.

[12] The original inflation target was revised upwards to 7.5 per cent from 7.0 per cent, consistent with the new consumer price index (CPI) released by STATIN on 28 September 2007 (See Box 2).

Appendices

A. Fiscal Developments: July to September 2007

Provisional data for the September 2007 quarter indicate a Central Government deficit of $13 164.5 million or 1.7 per cent of GDP, relative to the targeted deficit of $14 647.9 million or 1.9 per cent of GDP. This lower than expected deficit was due to above target revenue, as expenditure exceeded budget by 0.9 per cent. The primary surplus of 1.4 per cent of GDP was above the budgeted primary surplus of 1.0 per cent. However, the current deficit to GDP ratio of 0.5 per cent exceeded the projected current deficit of 0.4 per cent of GDP (see table).

Total revenue for the three-month period ended September 2007 was 3.8 per cent above target, largely influenced by the over performance of capital revenue and non-tax revenue, as grant and tax revenues were below budget. The strong capital revenue outturn for the period resulted from higher than expected receipts from the liquidation of assets by Financial Institutions Services (FIS). The low tax revenue relative to budget is reflective of lower than budgeted SCT collections.

Total expenditure exceeded budget by $649.5 million or 0.9 per cent in the September quarter, consequent on a 3.1 per cent variance in recurrent expenditure, which was partly offset by 8.7 per cent containment in capital spending. Recurrent expenditure exceeded target mainly as a result of above budget spending on programmes, as well as greater than expected interest payments. This higher expenditure on programmes reflected the inclusion of unbudgeted amounts to cover extra costs associated with the Programme of Advancement through Health and Education (PATH). The greater than targeted outturn for interest payments reflected interest payments made by the Government on behalf of Air Jamaica in July.

For the first half of the fiscal year, the Central Government deficit was $21 864.4 million or 2.8 per cent of GDP, relative to the targeted deficit of $28 367.8 million or 3.7 per cent of GDP. The outturn reflected expenditure being lower than budget by 3.3 per cent, which was achieved through a 22.9 per cent containment in capital expenditure. The better than expected outturn for total revenues for the 6-month period, was influenced by higher than budgeted capital revenue, bauxite levy and non-tax revenue. Grants and tax revenue were below budget for the first half of the fiscal year. As a consequence of the overperformance in total revenue, the primary balance was 3.4 per cent of GDP compared to a budgeted 2.6 per cent of GDP. The current deficit of 1.3 per cent of GDP is in line with the budgeted deficit of 1.3 per cent of GDP.

During the period April to September 2007, the Government utilized higher than targeted domestic financing, which was mainly obtained through the issue of securities. For the period, six of the fifteen instruments issued were variable rate instruments, accounting for 58.6 per cent of the financing raised. The weighted average age of new GOJ issues was 6.06 years relative to 10.59 years for the comparable period in fiscal year 2006/07. This indicates that the Government has moved to holding shorter term debt for the period relative to the similar period last year. For the period, the Government net amortized foreign debt above that budgeted consequent on the non-issue of a Eurobond originally scheduled to be reopened in June.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS
FY 2007/08
(J$MN)

	FY 2007/08 Q2	Budget Q2	Variance	%	FY 2007/08 Q1- Q2	Budget Q1- Q2	Variance	%
Revenue & Grants	**58582.2**	**56449.3**	**2132.9**	**3.78**	**114276.7**	**112344.1**	**1932.6**	**1.72**
Revenue	**57954.5**	**55639.3**	**2315.2**	**4.16**	**112787.6**	**110661.7**	**2125.9**	**1.92**
Tax Revenue	50367.6	50483.2	**-115.6**	**-0.23**	99816.9	100322.9	**-506.1**	**-0.50**
Non-Tax Revenue	4228.6	3453.8	**774.8**	**22.43**	6777.8	6050.5	**727.2**	**12.02**
Bauxite Levy	1282.3	1092.6	**189.7**	**17.36**	2730.8	2202.1	**528.7**	**24.01**
Capital Revenue	2076.0	609.6	**1466.4**	**240.57**	3462.2	2086.1	**1376.1**	**65.97**
Grants	627.7	810.0	**-182.3**	**-22.51**	1489.1	1682.4	**-193.3**	**-11.49**
Expenditure	**71746.6**	**71097.2**	**649.5**	**0.91**	**136141.1**	**140711.8**	**-4570.7**	**-3.25**
Recurrent Expenditure	**59833.0**	**58042.7**	**1790.4**	**3.08**	**119164.8**	**118706.6**	**458.2**	**0.39**
Programmes	15067.3	13588.3	1479.0	10.88	29227.8	27306.5	1921.3	7.04
Wages & Salaries	21100.9	21723.6	-622.7	-2.87	41677.0	42578.3	-901.3	-2.12
Interest	23664.8	22730.7	934.1	4.11	48260.0	48821.7	-561.7	-1.15
Domestic	15071.8	15076.7	-4.9	-0.03	33193.5	34016.4	-822.9	-2.42
Foreign	8593.0	7654.0	939.0	12.27	15066.5	14805.3	261.2	1.76
Capital Expenditure	11913.6	13054.5	-1140.9	-8.74	16976.3	22005.2	-5029.0	-22.85
Non-interest expenditure	**48081.8**	**48366.4**	**-284.6**	**-0.59**	**87881.1**	**91890.1**	**-4009.0**	**-4.36**
Fiscal Balance	**-13164.5**	**-14647.9**	**1483.4**	**-10.13**	**-21864.4**	**-28367.8**	**6503.4**	**-22.93**
Current Balance	**-3954.5**	**-3013.0**	**-941.6**	**31.25**	**-9839.4**	**-10130.9**	**291.6**	**-2.88**
Primary balance	**10500.3**	**8082.8**	**2417.5**	**29.91**	**26395.6**	**20454.0**	**5941.6**	**29.05**
BR	**1.70**	**1.89**			**2.82**	**3.66**		
CB	**-0.51**	**-0.39**			**-1.27**	**-1.31**		
PB	**1.36**	**1.04**			**3.41**	**2.64**		
IP	**3.05**	**2.93**			**6.23**	**6.30**		
FSR	**-1.22**	**-1.26**			**-1.19**	**-1.25**		
NIE	**6.21**	**6.24**			**11.34**	**11.86**		

Key

BR = Borrowing Requirement

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

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

IP= Interest Payments as a percent of GDP

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

International Benchmarks

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

FSR closer to zero indicates more stable government finances

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

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

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

B. MONETARY POLICY DEVELOPMENTS

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

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

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

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

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

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

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

LIST OF SUMMARY TABLES

C. Summary Tables

1

INFLATION RATES (%)

	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999			
June	58.3	3.0	1.7
September	59.9	2.7	5.2
December	60.6	1.1	0.9
March	61.0	0.6	2.4
2002/2003			
June	62.0	1.6	1.0
September	63.4	2.3	1.3
December	65.0	2.5	1.5
March	64.7	-0.4	1.6
2003/2004			
June	68.5	5.9	4.7
September	71.5	4.4	3.6
December	73.9	3.4	2.6
March	75.4	2.0	2.7
2004/2005			
June	76.8	1.9	1.5
September	79.0	2.9	3.5
December	84.1	6.4	5.4
March	85.3	1.5	1.3
2005/2006			
June	90.0	5.5	2.7
September	93.8	4.2	2.7
December	94.6	0.9	2.5
March	94.9	0.2	2.7
2006/2007			
June	97.6	2.9	2.1
September	99.9	2.4	2.1
December	100.0	0.1	1.0
March	102.5	2.5	4.0
2007/2008			
June	105.1	2.5	2.3
September	108.3	3.6	2.3

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
July – September 2007

Divisions, Classes and Groups	Weight in CPI	Inflation (%)	Contribution
FOOD & NON-ALCOHOLIC BEVERAGES	**0.3746**	**4.5**	**47.2**
Food	**0.3512**	**4.7**	**46.1**
- Bread and Cereals	0.0610	3.0	5.1
- Meat	0.0766	2.0	4.2
- Fish and Seafood	0.0533	3.0	4.5
- Milk, Cheese and Eggs	0.0311	1.7	1.5
- Oils and Fats	0.0164	2.6	1.2
- Fruit	0.0114	5.5	1.7
- Vegetables and Starchy Foods	0.0686	14.6	27.7
- Sugar, Jam, Honey, Chocolate and Confectionery	0.0172	2.3	1.1
- Food Products n.e.c.	0.0155	3.6	1.5
Non-Alcoholic Beverages	**0.0235**	**1.8**	**1.2**
- Coffee, Tea and Cocoa	0.0066	1.9	0.3
- Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	0.0169	1.8	0.8
ALCOHOLIC BEVERAGES AND TOBACCO	**0.0138**	**2.5**	**1.0**
CLOTHING AND FOOTWEAR	**0.0333**	**2.0**	**1.8**
Clothing	**0.0212**	**1.3**	**0.8**
Footwear	**0.0122**	**3.1**	**1.0**
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	**0.1276**	**10.0**	**35.6**
Rentals for Housing	**0.0301**	**14.6**	**12.2**
Maintenance and Repair of Dwelling	**0.0080**	**1.3**	**0.3**
Water Supply and Miscellaneous Services Related to the Dwelling	**0.0132**	**7.0**	**2.6**
Electricity, Gas and Other Fuels	**0.0712**	**9.4**	**18.5**
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE	0.0493	2.0	2.8
Furniture and Furnishings	**0.0069**	**6.1**	**1.2**
Household Textiles	0.0032	2.5	0.2
Household Appliances	0.0056	2.6	0.4
Glassware, Tableware and Household Utensils	**0.0005**	**6.1**	**0.1**
Tools and Equipment for House and Garden	**0.0015**	**1.0**	**0.0**
Goods and Services for Routine Household Maintenance	**0.0316**	**1.1**	**0.9**
HEALTH	**0.0329**	**0.6**	**0.5**
Medical Products, Appliances and Equipment	0.0122	0.7	0.2
Health Services	0.0207	0.5	0.3
TRANSPORT	**0.1282**	**-0.1**	**-0.4**
COMMUNICATION	**0.0399**	**0.1**	**0.1**
RECREATION AND CULTURE	**0.0336**	**2.8**	**2.6**
EDUCATION	**0.0214**	**5.7**	**3.4**
RESTAURANTS & ACCOMMODATION SERVICES	**0.0619**	**1.6**	**2.7**
MISCELLANEOUS GOODS AND SERVICES	**0.0837**	**1.2**	**2.7**
ALL DIVISIONS	**1.0000**	**3.6**	**100.0**

2B

REGIONAL INFLATION
July – September 2007

Divisions, Classes and Groups	KMA	Other Urban Centres	Rural Areas
FOOD & NON-ALCOHOLIC BEVERAGES	**5.6**	**2.0**	**3.8**
Food	**5.9**	**2.3**	3.9
- Bread and Cereals	3.1	1.8	3.3
- Meat	3.2	-2.9	1.5
- Fish and Seafood	2.2	-2.6	4.1
- Milk, Cheese and Eggs	4.2	-0.1	-0.3
- Oils and Fats	3.3	1.3	2.5
- Fruit	8.3	10.3	-1.2
- Vegetables and Starchy Foods	16.3	13.0	11.4
- Sugar, Jam, Honey, Chocolate and Confectionery	2.5	-0.3	2.6
- Food Products n.e.c.	2.7	4.7	5.0
Non-Alcoholic Beverages	**2.1**	**-3.7**	**1.3**
- Coffee, Tea and Cocoa	2.5	-0.3	1.6
- Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	2.0	-4.9	1.2
ALCOHOLIC BEVERAGES AND TOBACCO	**2.0**	**7.2**	**2.5**
CLOTHING AND FOOTWEAR	**1.4**	**2.3**	**2.2**
Clothing	**1.2**	**1.3**	**1.6**
Footwear	**1.9**	**3.8**	**3.4**
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	**7.1**	**16.6**	**11.0**
Rentals for Housing	**5.2**	**40.6**	**30.6**
Maintenance and Repair of Dwelling	**1.8**	**-1.6**	**1.0**
Water Supply and Miscellaneous Services Related to the Dwelling	**7.7**	**6.1**	**6.7**
Electricity, Gas and Other Fuels	**9.5**	**9.7**	**9.4**
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE	1.6	2.1	2.6
Furniture and Furnishings	**5.3**	**3.2**	**7.2**
Household Textiles	1.2	1.2	4.3
Household Appliances	0.7	1.8	3.5
Glassware, Tableware and Household Utensils	**2.2**	**1.2**	**9.8**
Tools and Equipment for House and Garden	**1.4**	**0.6**	**0.7**
Goods and Services for Routine Household Maintenance	**0.9**	**2.2**	**1.2**
HEALTH	**0.3**	**0.5**	**0.5**
Medical Products, Appliances and Equipment	0.6	-1.2	0.3
Health Services	0.2	1.4	0.7
TRANSPORT	**-0.5**	**0.0**	**0.2**
COMMUNICATION	**0.0**	**-0.8**	**0.0**
RECREATION AND CULTURE	**2.2**	**7.3**	**3.5**
EDUCATION	**6.1**	**5.3**	**5.4**
RESTAURANTS & ACCOMMODATION SERVICES	**3.1**	**3.1**	**1.0**
MISCELLANEOUS GOODS AND SERVICES	**1.4**	**0.6**	**1.2**
ALL DIVISIONS	**3.7**	**3.9**	**3.2**

3

BANK OF JAMAICA OPERATING TARGETS

	Mar-06	Jun-06	Sept-06	Dec-06	Mar-07	June-07	Sep-07[p]
Net International Reserves (US$)	**2 078.1**	**2 110.1**	**2 342.0**	**2 317.6**	**2 329.4**	**2 238.9**	**1 916.2**
Net International Reserves ($J)	**135 515.2**	**138 862.3**	**155 486.0**	**153 862.1**	**157 743.9**	**152 579.0**	**133 807.5**
- Assets	154 736.5	150 915.4	164 296.7	159 276.9	**176 994.1**	**168 485.2**	**135 690.2**
- Liabilities	-19 21.3	-12 053.1	- 8 810.7	-5 414.8	**-19 250.2**	**-15 906.2**	**-1882.7**
Net Domestic Assets	**-91 907.4**	**-93 911.6**	**-108 165.8**	**- 95 886.7**	**-105 920.6**	**-99 591.6**	**-79 335.9**
-Net Claims on the Public Sector	99 01.8	98 961.5	93 207.9	94 684.7	**96 326.9**	**91 824.7**	**95 955.4**
- Net Credit to Banks	-10 06.7	-9 322.7	-9 886.1	-10 303.6	**-10 858.6**	**-10 860.9**	**-11 858.7**
- Open Market Operations	-157 57.6	-159 438.0	-166 018.9	-154 757.0	**-165 704.0**	**-150 758.3**	**-129 771.5**
- Other	-22 644.9	-24 112.3	-25 468.8	-25 510.8	**-25 684.9**	**-29 797.1**	**-33 661.1**
Monetary Base	**43 607.8**	**44 950.6**	**47 320.2**	**57 975.5**	**51 823.2**	**52 987.4**	**54 771.7**
- Currency Issue *	29 714.4	30 734.4	32 143.4	42 317.3	**35 956.2**	**36 348.3**	**37 446.0**
- Cash Reserve	13 685.2	14 093.2	14 907.8	14 821.7	**15 734.2**	**16 177.6**	**16 893.4**
- Current Account	208.2	123.0	269.0	836.5	**132.8**	**461.5**	**132.3**
% change Monetary Base (F-Y-T-D)	**4.7**	**3.1**	**8.5**	**32.9**	**18.8**	**2.2**	**5.1**

** Excludes BOJ's teller cash; r: revised; p: preliminary*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December	55 258.0	67 724.6	141 539.8	211 468.2	182 029.6	251 723.8
March	52 605.9	62 309.4	139 480.6	209 583.2	179 769.4	249 872.0
2005/2006						
June[r]	52 942.5	62 310.9	142 111.3	212 032.6	185 090.2	255 011.5
September	53 089.8	63 212.3	143 430.0	216 480.9	188 253.9	261 304.7
December	62 572.8	72 736.2	155 248.0	228 320.7	200 537.3	273 609.9
March	58 617.7	69 800.3	153 618.0	228 524.9	202 804.6	277 711.5
2006/2007						
June	61 908.1	71 897.4	159 153.6	232 227.4	208 718.0	281 791.8
September	64 668.9	73 233.3	162 466.8	234 331.2	214 812.8	286 677.2
December	78 180.3	87 446.4	181 792.9	256 975.7	235 544.9	310 727.7
March[r]	70 936.5	80 588.3	175 367.2	253 125.3	231 304.0	309 062.2
2006/2007						
June[r]	74 603.1	85 666.8	182 099.9	266 428.9	237 729.8	322 058.8
September[p]	75 563.7	90 053.6	185 371.1	280 698.4	242 607.4	337 934.7

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

5

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

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07[r]	Jun-07[p]	Sep-07[p]
M2J	**11 818.0**	**-1 630.0**	**5 535.6**	**3 313.2**	**19 326.1**	**-6 423.0**	**6 882.8**	**3 271.2**
Currency	5 549.5	-3 435.3	1 285.3	966.9	7 333.8	-4 631.3	1 506.1	839.2
Demand Deposits	3 933.5	-519.7	2 005.1	1 793.9	6 177.6	-2 609.9	2 310.5	121.3
Savings Deposits	3 505.2	296.3	2 951.0	1 288.2	4 413.7	917.8	1 826.7	2 798.0
Time Deposits	-1 170.2	2 028.7	- 705.8	-735.8	1 401.0	-99.1	1 239.5	-487.3
OTHER DEPOSITS	**465.5**	**3 897.4**	**377.8**	**2 781.5**	**1 406.0**	**2 184.8**	**-302.8**	**1 606.4**
TOTAL (M3J)	**12 283.4**	**2 267.4**	**5 913.4**	**6 094.7**	**20 732.2**	**4 238.2**	**6 580.0**	**4 877.6**
SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY								
N.I.R. of B.O.J.	**-1 952.9**	**-605.5**	**2 100.0**	**15 400.2**	**-1 624.0**	**799.4**	**-6 166.4**	**-22 532.7**
M&LTFL of B.O.J	**44.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Banking System Credit	**-3 193.7**	**3 235.0**	**3 712.2**	**-3 896.5**	**6 620.4**	**18 440.5**	**12 587.8**	**315.9**
Public Sector	-5 333.0	-194.2	276.5	-8 872.8	-2 471.5	**13 835.9**	**6 955.0**	**-6 050.0**
Private Sector	2 139.3	3 429.2	3 435.7	4 976.3	9 091.9	**4 604.6**	**5 632.8**	**6 365.9**
Open Market Operations	**18 301.7**	**-7 551.1**	**-2 080.4**	**- 6580.9**	**11 261.9**	**-10 947.0**	**14 945.8**	**20 986.7**
Other	**-916.4**	**7 189.0**	**2 181.6**	**1 171.9**	**4 473.8**	**-12 531.1**	**-14 787.2**	**6 107.7**
TOTAL	**1 2 283.4**	**2 267.4**	**5 913.4**	**6 094.7**	**20 732.2**	**4 238.2**	**6 580.0**	**4 877.6**
Memo:								
Foreign Currency Deposits (Private Sector)	**21.8**	**1 834.2**	**-1 833.1**	**-1 209.3**	**3 318.4**	**2 576.8**	**6 570.8**	**n.a.**
Foreign Currency Loans (Private Sector)	**3 754.3**	**715.3**	**2 801.9**	**478.0**	**3 124.4**	**4 124.8**	**1 874.8**	**n.a.**

p-preliminary
r-revised
n.a: not available

6A

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

	Fixed Deposits *		Savings Deposits	Lending Rate	Fixed Deposits Rate	Loan Rate (Weighted	Inter-bank Lending Rate
	3-6 months	6-12 months	(Average) [r]	(Average)	(Weighted Average)	Average)	(Average)
2002/2003							
June	7.75–13.25	7.75–13.25	9.00	25.92	9.28	18.15	14.68
September	7.75–13.25	7.75–13.25	8.86	26.25	8.98	18.08	13.88
December	7.75–13.25	7.75–13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50-13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50–13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	7.24	25.60	8.68.	19.32	24.08
March	8.50–13.25	8.50-13.50	6.78	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 – 13.25	8.50-13.50	6.61	25.02	8.15	17.75	15.75
September	8.50 - 13.25	8.50-13.50	6.61	24.95	7.99	17.76	8.38
December	3.00 – 14.10	3.50–14.30	6.48	24.89	7.78	17.72	12.95
March	3.00 – 14.10	3.50–14.30	6.36	24.89	7.54	17.35	12.58
2005/2006							
June	3.00–14.10	3.50-14.30	5.52	24.70	7.34	16.43	10.00
September	2.50- 14.10	3.00–14.30	5.48	22.00	7.11	17.41	11.13
December	2.50- 14.10	3.00–14.30	5.48	22.00	7.00	17.32	12.42
March	2.50- 14.10	3.00–14.30	5.30	21.84	7.17	17.54	10.00
2006/2007							
June	2.50- 14.10	3.00–14.30	5.39	22.50	7.17	17.60	9.00
September	2.50- 14.10	3.00–14.30	5.36	21.80	6.88	17.83	9.13
December	2.50- 14.10	3.00–14.30	5.20	21.90	6.60	17.59	8.10
March	2.50- 14.10	3.00–14.30	5.15	22.49	6.94	17.28	7.75
2007/2008							
June	6.80 - 10.95	6.50 - 11.60	5.17	22.49	6.96	17.23.	9.67
September	6.80 - 11.85	6.50 – 12.35	4.88	21.08	n.a.	n.a.	10.50

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

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	6-month	9-month	12-month
2000/2001				
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	
2005/2006				*
June	12.85	12.88		
September	12.96	13.15		
December	13.34	13.55		
March	13.16	13.18		
2006/2007				
June	12.64	12.82		
September	12.44	12.49		
December	12.26	12.31		
March	11.55	11.65		
2007/2008				
June	11.98	12.13		
September	14.34	14.29		

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

7

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

Tenor of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95
2004/2005							
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40
September	14.00	14.10	14.20	14.35	14.80	15.35	16.00
December	13.80	13.95	14.05	14.15	14.30	15.00	15.50
March	12.95	13.10	13.20	13.30	13.45	14.00	14.50
2005/2006							
June	12.60	12.70	12.75	12.85	13.00	13.25	13.60
September	12.60	12.70	12.75	12.85	13.00	13.25	13.60
December	12.60	12.70	12.75	12.85	13.00	13.25	13.60
March	12.60	12.70	12.75	12.85	13.00	13.25	13.60
2006/2007							
June*	12.45	12.50	12.60	12.65	12.80	...	...
September	11.95	12.00	12.10	12.15	12.30	...	...
December	11.65	11.70	11.80	11.85	12.00	...	...
March	11.65	11.70	11.80	11.85	12.00	...	...
2007/2008							
June	11.65	11.70	11.80	11.85	12.00	...	...
September	11.65	11.70	11.80	11.85	12.00	...	14.00

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
July – September 2007

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
13 July	LRS 2011 B Tr. F	46.8	15.00
19 July	FR LRS 2007 D	100.0	14.25
20 July	FR LRS 2007	300.0	15.75
20 July	FR LRS 2007 Tr. 2	500.0	17.10
27 July	FR LRS 2007 AA	391.7	16.0
27 July	FR LRS 2007 AA	8.3	16.0
27 July	VR Inv. Bond	5519.5	13.31
14 August	VR Inv. Bond 2007/2008 Ser. G	2705.4	13.31
17 August	FR LRS 2007 AB	360.0	16.00
17 August	FR LRS 2007 AB	40.0	16.00
28 August	US$ Ind. Bond 2007	5.7	5.865
30 August	VR LRS 2007/2008C	974.7	13.585
31 August	US$ Ind. Bond 2007 A	109.4	10.5
31 August	VR LRS 2001/2008 Tr. C	369.3	11.94
7 September	VR LRS 2007/2008A	2000.0	
7 September	VR LRS 2010/2011A	526.0	
21 September	FR LRS 2007 AC	594.2	15.75
21 September	FR LRS 2007 AC	5.7	15.75
25 September	VR LRS 2007 B	600.0	13.90

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

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
July – September 2007

Issue Date	Stock Name	Features	Amount raised J$M
11July	*FR LRS 2012 AF*	*Tenor of 5 years. Interest rate fixed at 12.25%. Interest paid on 13 July and 13 January.*	*1200.0*
20 July	*FR Inv. Deb. 2009 Ser. Bb*	*Tenor of 18 months. Interest rate fixed at 13.00%. Interest paid on 19 October. Thereafter, interest paid quarterly.*	*3956.5*
30 July	*VR Inv. Bond 2012/2013 Ser. Al*	*Tenor of 5 years. Interest rate fixed at 12.16%. Interest fixed for first six months. Thereafter, semi-annual payments of 1.50 percentage points above 6-month WATBY.*	*6 377.4*
3 August	*FR Reg. Bond 2027 Ser. P*	*Tenor of 20 years. Interest rate fixed at 14.40%. Interest paid on 2 November. Thereafter interest paid quarterly.*	*1 479.2*
10 August	*VR Inv. Bond 2014/2015 Ser. Am*	*Tenor of 7 years. Interest rate fixed at 12.16%. Interest fixed for first six months. Thereafter, semi-annual payments of 1.50 percentage points above 6-month WATBY.*	*1 553.9*
31 August	*VR Inv. Bond 2008/2009 Ser. An*	*Tenor of 18 months. Interest rate fixed at 12.21%. Interest rate fixed for first three months. Thereafter, quarterly interest payments of 1.50 percentage points above 3-month WATBY.*	*9 696.31*
17 September	*VR Inv. Bond 2008/2009 Ser. Ap*	*Tenor of 2 years. Interest rate fixed at 12.21%. Interest rate fixed for 3 months. Thereafter, quarterly interest payments of 1.50 percentage points above 3-month WATBY.*	*1 997.0*
28 September	*FR Inv. Deb. 2008 Ser. Bc*	*Tenor of 1 year. Interest rate fixed at 14.00%. Interest paid on 27 December. Thereafter, interest paid quarterly.*	*7 106.9*

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

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
2004/2005	82.1	825.0	87.0	8.2	74.2	272.6	216.3	1 565.4
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	957.5	89.4	7.7	65.3	418.1	170.0	1 808.6
June	22.6	245.2	41.5	2.1	17.2	61.9	48.6	439.1
September	24.8	233.3	3.8	1.3	18.2	106.8	38.9	427.1
December	25.7	231.1	0.0	1.3	9.0	111.6	38.2	416.9
March r	27.5	247.9	44.1	3.0	20.9	137.8	48.4	529.6
2006/2007 r	**115.2**	**1 042.5**	**90.4**	**13.3**	**78.6**	**643.9**	**171.9**	**2 155.8**
June	29.4	258.8	43.0	3.2	25.0	144.8	46.0	550.2
September	29.4	268.7	2.6	3.8	20.1	166.0	44.2	534.8
December	27.0	265.2	0.0	3.4	14.8	161.4	47.2	519.0
March	29.4	249.8	44.8	2.9	18.7	171.7	50.6	567.9
2007/2008								
June	28.5	268.9	42.4	4.5	21.7	162.5		576.8

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

11

BALANCE OF PAYMENTS QUARTERLY SUMMARY
(US$M)

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07p	Jun-07p
1. Current Account	-258.7	-275.7	-211.9	-402.2	-280.5	-313.9	-358.3
A. Goods Balance	-657.8	-735.5	-672.9	-821.7	-713.3	-768.7	-808.2
Exports (f.o.b.)	416.9	529.6	550.2	534.8	519.0	567.9	576.8
Imports (f.o.b.)	1 074.7	1 265.1	1 223.1	1 356.5	1 232.3	1 336.6	1 384.9
B. Services Balance	151.9	198.3	179.1	117.1	133.1	169.0	122.7
Transportation	-69.6	-91.3	-99.7	-126.8	-108.7	-116.1	-126.2
Travel	330.0	425.9	412.4	380.9	377.8	427.1	381.8
Other Services	-108.5	-136.3	-133.5	-137.0	-135.7	-141.9	-132.9
Goods & Services Balance	-505.9	-537.2	-493.7	-704.6	-580.2	-599.7	-685.4
C. Income	-164.2	-147.8	-153.7	-141.0	-160.5	-165.8	-162.6
Compensation of Employees	32.8	7.8	13.6	33.5	41.0	2.1	9.9
Investment Income	-197.0	-155.6	-167.4	-174.5	-201.6	-167.9	-172.5
D. Current Transfers	411.4	409.3	435.6	443.5	460.2	451.6	489.7
General Government	31.1	36.5	36.7	34.9	37.4	35.1	37.3
Other Sectors	380.3	372.8	398.9	408.6	422.8	416.4	452.5
2. Capital & Financial Account	258.7	275.7	211.9	402.2	280.5	313.9	358.3
A. Capital Account	-0.1	-2.1	0.9	0.7	0.4	-1.8	-1.3
Capital Transfers	-0.1	-2.1	0.9	0.7	0.4	-1.8	-1.3
General Government	0.0	0.1	2.1	1.6	0.4	0.2	0.2
Other Sectors	-0.1	-2.2	-1.2	-0.9	0.0	-2.0	-1.5
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	258.8	277.8	211.0	401.4	280.1	315.6	359.7
Official Investment	210.2	-17.0	192.5	176.7	280.8	174.8	173.0
Private Investment (including net errors & omissions)	17.0	285.5	50.5	456.7	-25.1	152.7	96.2
Reserves	31.6	9.3	-31.9	-232.0	24.5	-11.8	90.5

p-provisional

12

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

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Inflows	Other Current Transfers	Total
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**148.2**	**1 476.0**
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	**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	**376.2**	**1 067.8**	**0.9**	**355.8**	**1 800.7**	**170.2**	**1 970.9**
June	93.7	260.1	0.3	81.4	435.5	40.2	475.7
September	94.7	268.6	0.3	88.5	452.1	40.2	492.3
December	93.9	276.2	0.3	98.8	469.2	40.2	509.4
March	93.9	262.9	0.0	87.1	443.9	49.6	493.5
2007/2008							
June	94.5	290.4	0.0	94.2	479.1	49.6	528.7

13

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

	US$	Can$	GB£
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52
September	62.89	53.61	110.02
December	64.58	54.95	110.40
March	65.50	56.14	112.94
2006/2007			
June	66.03	59.50	120.19
September	66.06	59.10	123.48
December	67.15	57.53	131.53
March	67.80	58.75	132.40
2007/2008			
June	68.58	64.81	136.60
September	70.41	70.38	142.28

14

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

	Gross Foreign Assets (US$MN)	Gross Foreign Liabilities (US$MN)	International Reserves (Net) (US$MN)	*Weeks of Imports* Goods	Goods & Services
2002/2003					
June	1837.5	55.2	1 782.3	31.2	20.6
September	1738.6	51.3	1 687.3	29.5	19.5
December	1643.1	46.1	1 597.0	27.9	18.4
March	1382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1901.6	27.5	18.8
2005/2006					
June	2 179.3	22.5	2 156.8	28.1	19.5
September	2 243.0	124.0	2 119.0	27.0	19.1
December	2 169.0	81.6	2 087.4	27.0	19.0
March	2 372.9	294.8	2 078.1	28.3	20.1
2006/2007					
June	2 293.2	183.2	2 110.0	22.9	16.7
September	2 474.7	132.7	2 342.0	26.1	18.8
December	2 399.1	81.6	2 317.5	25.2	18.2
March	2 613.6	284.3	2 329.3	27.1	19.5
2007/2008					
June	2 472.3	233.4	2 238.9	24.5	17.7
September	1 943.2	27.0	1 916.2	18.2	13.2

15

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	*Volume Traded (M.)*	*Value of Stocks Traded (J$M.)*
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7
2004/2005			
June	94 718.4	665.7	9 395.7
September	99 819.8	391.1	4 920.4
December	112 655.5	532.0	7 144.9
March	111 931.2	920.4	18 029.3
2005/2006			
June	110 621.9	866 .8	14 136.8
September	103 332.6	387.8	4 189.6
December	104 510.4	323.1	4 391.0
March	86 896.1	366.5	4 513.8
2006/2007			
June	**85 108.2**	**1 882.6**	**10 627.1**
September	**86 196.0**	**610.4**	**3 441.1**
December	**100 678.0**	**2 823.9**	**18 459.0**
March	**90 595.1**	**556.1**	**7 662.6**
2007/2008			
June	**90 069.9**	**352.4**	**2 762.0**
September	**96 299.8**	**884.7**	**5 013.4**

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

16

PUBLIC SECTOR DOMESTIC SECURITIES
Outstanding Stocks

(J$MN)

End Period	**Local Registered Stocks**	**Treasury Bills**	**Bonds**	**BOJ Open Market Operations Securities**
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.5	3 750.0	210 300.0.	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	220 529.2	4 050.0	231 749.8	167 485.1
September	220 059.0	3 800.0	244 195.7	168 108.2
December	225 762.8	3 500.0	240 934.0	149 806.5
March	235 632.7	3 800.0	233 643.7	157 357.6
2006/2007				
June	236 668.6	4 200.0	249 662.1	159 438.0
September	231 237.9	4 600.0	285 901.2	166 018.9
December	229 978.3	4 700.0	294 773.2	154 757.0
March	226 631.1	4 200.0	276 155.1	165 704.0
20007/2008				
June	232 363.8	4 200.0	297 276.0	150 758.3
September	n.a.	4 200.0	n.a.	129 771.5

n.a: Not Available

17

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

	Bauxite	Alumina	Sugar	Bananas*
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
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	**4 594.3**	**4 105.2**	**144.0**	**30.6**
June	1 136.3	1 053.4	46.3	6.9
September	1 186.5	1 003.9	0.0	9.9
December	1 099.7	1 026.5	2.3	8.0
March	1 171.8	1 021.4	95.4	5.8
2007/2008				
June	1 089.7	1 044.3	59.7	8.1
September	1 123.1	908.9	6.9	3.6

** Exports*

18

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES,
AT CONSTANT (1996) PRICES
Jun 2005 - Jun 2007 (Seasonally Unadjusted)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Total Gross Domestic Product	-0.08	3.40	2.64	2.16	2.59	2.83	2.28	1.77	2.28
Agriculture, Forestry & Fishing	-16.97	1.56	26.41	19.49	13.46	5.98	8.26	1.66	4.69
Export Agriculture	-41.30	-58.15	106.41	52.77	9.96	100.63	22.13	1.79	24.72
Domestic Agriculture, Livestock,									
Forestry & Fishing	-10.24	9.82	20.42	12.60	14.09	0.99	6.48	1.63	1.20
Mining & Quarrying	0.87	16.64	-3.46	-1.96	1.31	0.44	6.70	0.79	-0.64
Manufacturing	-0.10	3.80	-4.35	-1.56	-4.15	-1.13	-2.90	-0.37	3.12
Food, Beverages & Tobacco	0.58	-1.23	-10.17	-6.72	-9.44	-4.14	-6.19	-0.99	3.34
Other Manufacturing	-1.05	9.67	1.91	5.67	3.40	2.04	0.22	0.40	2.86
Electricity & Water	1.76	10.24	4.43	3.91	1.91	3.14	4.30	4.54	3.93
Construction & Installation	8.29	10.18	-0.14	-3.84	-2.72	-1.45	2.70	4.50	3.97
Distributive Trade	1.15	0.71	0.86	0.74	0.81	1.76	2.38	2.82	3.15
Transport, Storage & Communication	-0.60	0.35	2.75	2.86	4.76	7.30	4.41	3.67	3.03
Finance & Insurance Services	-0.92	0.22	2.87	2.30	1.80	1.24	0.73	4.02	5.59
Real Estate & Business Services	2.27	2.11	1.75	2.67	2.27	2.44	2.63	2.58	2.16
Producers of Government Services	-0.74	0.99	1.13	0.21	-0.16	-0.27	0.50	0.66	0.67
Miscellaneous Services Household and Private Non-Profit Institutions	-0.65	-2.32	9.71	7.66	15.77	12.72	3.59	-0.40	-2.05
Hotels, Restaurants & Clubs	-1.71	-4.31	12.80	9.08	19.95	16.46	4.16	-1.11	-3.21
Less Imputed Bank Service Charge	-0.42	-3.33	-3.40	-1.61	-0.90	-0.12	5.31	8.50	6.07

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06[r]	Mar-07	Jun-07	Sep-07
Assets	**248 926.4**	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**	**269 763.7**	**269 863.3**	**266 006.6**	**234 449.4**
Foreign	140 935.2	139 675.7	154 986.1	150 870.6	163 156.8	160 616.1	176 699.3	169 301.9	136 180.7
Current Account & Foreign Currency Balances	17 681.6	14 090.9	8 942.3	9 263.6	11 987.9	8 670.1	19 617.9	6 382.1	9 199.7
Time Deposits & Securities	120 550.1	122 805.6	138 634.6	134 050.6	143 498.5	144 055.8	149 013.7	154 673.4	118 397.0
Holdings of Special Drawing Rights	25.2	0.4	8.8	14.5	17.0	17.9	16.4	14.6	11.4
Other	2 678.3	2 778.8	7 400.4	7 541.9	7 653.4	7 872.3	8 051.3	8 231.8	8 572.6
Local	107 991.2	100 660.5	104 301.7	105 527.8	107 407.5	109 147.6	93 164.0	96 704.7	98 268.7
Public Sector Securities	81 357.5	79 358.9	84 862.3	87 163.4	86 784.5	86 791.0	68 877.1	68 615.5	73 834.6
Other Assets	19 303.0	24 942.8	20 665.5	20 244.1	22 400.1	22 356.6	24 286.9	28 089.2	24 434.1
Liabilities	**248 926.4**	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**	**269 763.7**	**269 863.3**	**266 006.6**	**234 449.4**
Foreign	342.2	346.6	361.7	310.3	236.0	295.5	244.8	263.4	259.5
Local	248 584.2	239 989.8	258 926.1	256 088.1	270 328.3	269 468.2	269 618.4	265 743.2	234 189.9
Currency in Circulation	27 445.9	35 682.7	29 747.7	30 776.5	32 187.6	42 347.3	35 994.1	36 397.1	37 509.0
Deposits	207259.0	187 435.9	210 909.4	210 670.5	224 521.8	212 883.2	219 603.0	215 715.8	180 700.9
Bankers	24 819.5	26 226.8	26 442.0	25 246.5	26 843.9	27 912.0	28 750.2	29 596.9	31 101.9
Government	4 637.5	3 308.4	6 557.1	11 366.4	20 097.7	19 678.5	5 634.1	17 575.9	14 499.1
Open Market Operations	168 108.2	149 806.5	157 357.6	159 438.0	166 018.9	154 757.0	165 704.0	150 758.3	129 771.5
Other	9 693.8	8 094.2	20 552.7	14 619.6	11 561.3	10 535.7	19 514.7	17 784.7	5 328.4
Allocation of Special Drawing Rights	3 792.6	3 792.7	3 792.7	3 792.7	3 792.7	3 914.0	3 914.0	3 914.0	3 914.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	2 961.6	2 866.2	2 813.1	3 279.5	3 112.0	3 378.8	3 175.6	4 274.0	4 382.3
Other Liabilities	7 101.1	10 188.1	11 639.2	7 544.9	6 690.2	6 920.9	6 907.8	5 418.3	7 659.7

r- revised

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07[r]	Sep-07[p]
Assets	**356 575.5**	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.4**	**429 969.2**	**439 454.8**	**452 281.0**	**471 604.9**
Cash	3 320.8	6 014.4	3 519.6	3 254.3	3 696.4	6 536.5	4 806.7	3 692.7	**3 951.2**
Balances with BOJ	62 486.9	57 747.9	66 793.0	70 857.1	75 384.0	72 120.9	68 390.5	60 056.9	**60 014.3**
Foreign Assets	71 328.1	75 443.9	83 846.4	90 768.5	90 298.1	96 277.1	93 327.2	105 317.4	**111 578.5**
Loans & Advances	124 842.3	132 095.3	131 963.6	140 265.3	143 400.2	153 449.2	164 106.1	172 769.7	**183 898.4**
Private Sector	93 714.5	99 544.2	102 911.4	109 273.5	114 369.4	125 512.2	133 626.6	141 770.6	**155 376.6**
Public Sector	31 127.8	32 551.1	29 052.2	30 991.8	29 030.8	27 937.0	30 479.5	30 999.1	**28 521.8**
Public Sector Securities	56 515.4	56 118.0	56 144.6	54 399.3	55 984.4	58 191.2	61 284.1	66 639.3	**64 883.9**
Cheques in the Process of Collection	4 860.9	3 472.3	7 331.1	5 249.7	4 292.2	4 133.5	7 924.7	4 628.2	**5 177.6**
Other Assets	33 221.1	36 186.2	36 161.2	35 085.1	38 348.1	39 260.8	39 615.5	39 176.8	**42 101.0**
Liabilities	**356 575.5**	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.4**	**429 969.2**	**439454.8**	**452 281.0**	**471 604.9**
Deposits	240 794.3	246 264.9	255 315.4	262 241.9	268 345.9	282 925.5	281 934.5	292 735.3	308 182.3
Local Currency	144 734.2	148 895.3	157 303.3	161 806.5	165 253.8	175 855.2	179 631.3	182 259.7	
Foreign Currency	96 060.1	97 369.6	98 012.1	100 435.4	103 092.1	107 070.3	102 303.2	110 475.6	
Foreign Liabilities	30 496.4	35 453.1	41 797.7	47 720.5	55 210.6	56 800.0	59 656.7	56 315.8	61 469.2
Discounts & Advances from BOJ	361.6	234.5	174.6	173.1	226.1	182.6	168.1	192.3	178.3
Loans/Advances from Other Institutions	5 059.6	5 095.7	4 896.5	4 989.0	4 777.0	5 451.4	5 295.1	5 126.0	6 082.5
Cheques in the Process of Payment	2 616.4	2 789.5	3 450.9	3 645.1	3 305.9	3 900.8	4 528.8	4 745.0	4 024.0
Other Liabilities	77 247.2	77 240.3	80 124.4	81 109.7	79 537.9	80 708.9	87 871.6	93 166.6	91 668.6

P - preliminary ; r - revised

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237
2005/2006				
June	3.2498	3.4263	3.6131	3.8135
September	3.7779	3.8981	4.0363	4.1951
December	4.3622	4.4910	4.6662	4.8357
March	4.7604	4.9203	5.0527	5.1867
2006/2007				
June	5.2301	5.3673	5.4759	5.5772
September	5.3300	5.3898	5.4249	5.4101
December	5.3219	5.3600	5.3700	5.3294
March	5.3199	5.3462	5.3132	5.1969
2007/2008				
June	5.3200	5.3600	5.3863	5.4256
September	5.5572	5.5424	5.3916	5.0865

2

LONDON MONEY RATES – INTERBANK STERLING (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2004/2005				
June	4 5/8 – 4 1/2	4 7/8 – 4 3/14	5 1/16 – 4 15/16	5 ¼ - 5 1/8
September	4 27/32-4 23/32	4 15/16-4 13/16	5-4 7/8	5 1/8-5
December	4 7/8 – 4 3/4	4 29/32 – 4 25/32	4 15/16 – 4 13/16	4 31/32 4 27/32
March	4 27/32 – 4 3/4	4 31/32 – 4 7/8	5 1/32 – 4 15/16	5 1/8 – 5 1/32
2005/2006				
June	4 27/32 – 4 11/16	4 25/32 – 4 5/8	4 23/32 – 4 9/16	4 19/32 – 4 13/32
September	4 19/32 – 4 15/32	4 19/32 – 4 15/32	4 9/16-4 7/16	4 7/16 – 4 13/32
December	4 21/32 – 4 17/32	4 5/8 – 4 17/32	4 19/32-4 15/32	4 9/16 – 4 15/32
March	4 19/32 – 4 1/2	4 5/8 – 4 17/32	4 11/16 – 4 9/16	4 25/32 – 4 11/16
2006/2007				
June	4 11/16 – 4 19/32	4 3/4 – 4 21/32	4 13/16 – 4 23/32	5 – 4 29/32
September	4 15/16 – 4 7/8	5 1/16 – 5	5 3/16 – 5 3/32	5 9/32 – 5 7/32
December	5 1/32 – 5 ¼	5 5/16 – 5 7/32	5 13/32 – 5 5/16	5 17/32 – 5 7/16
March	5 15/32 -5 13/32	5 5/8-5 17/32	5 ¾-5 21/32	5 7/8-5 25/32
2007/2008				
June	5 92/100- 5 95/100	6 1/100 - 5 93/100	6 14/100 – 6 6/100	6 33/100 – 6 23/100
September				

3

PRIME LENDING RATES
(End- of-Period)

	EURO-ZONE	UNITED STATES			UNITED KINGDOM
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Repo rate
2004/2005					
June	2.00	1.25	2.014	4.00	4.50
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75
March	2.00	2.75	3.58	5.50	4.75
2005/2006					
June	2.00	3.25	4.01	6.00	4.75
September	2.00	3.75	4.59	6.75	4.50
December	2.25	4.25	5.15	7.25	4.50
March	2.50	4.75	5.53	7.75	4.50
2006/2007					
June	2.75	5.25	6.02	8.25	4.50
September	3.00	5.25	6.25	8.25	4.75
December	3.50	5.25	6.25	8.25	5.00
March	3.75	5.25	6.25	8.25	5.25
2007/2008					
June	4.00	5.25	6.25	8.25	5.50
September	4.00	4.75	5.25	8.25	5.75

4A

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

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07
US$ vs. Sterling	0.5818	0.5704	0.5425	0.53430	0.51056	**0.5132**	**0.4985**	**0.4905**
US$ vs. Canadian $	1.1656	1.1547	1.1138	1.1153	1.1653	**1.1682**	**1.0634**	**0.9963**
US$ vs. Yen	117.88	117.28	114.63	118.00	119.03	**117.26**	**123.39**	**114.980**
US$ vs. Euro	0.8445	0.8315	0.7900	0.78820	0.75782	**0.7550**	**0.7397**	**0.7033**

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(Sep 2007)

	GBP	CAN$	US$	Yen	Euro
GBP	1.000	2.031	2.039	234.43	1.434
CAN$	0.492	1.000	1.004	115.41	0.706
US$	0.490	0.996	1.000	114.98	0.703
Yen	0.004	0.009	0.009	1.0000	0.006
Euro	0.697	1.417	1.422	166.81	1.000

4C

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

	Jun-06	Sep-06	Dec-06	Mar -07	Jun-07	Sep-07
Sterling vs. US$	1.843	1.8716	19586	1.9473	2.0061	2.0388
Sterling vs. Canadian $	2.053	2.0874	2.2824	2.2748	2.1333	2.0313
Sterling vs. Yen	211.29	220.84	233.14	228.36	247.54	234.43
Sterling vs. Euro 1/	1.456	1.4752	1.4843	1.4702	1.4839	1.4339

5A

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

	Mar-06	Jun-06	Sep-06	Dec-06	Mar - 07	Jun -07	Sep-07
North Sea Brent	62.25	68.86	62.77	62.31	62.09	71.92	80.65
West Texas Intermediate	62.89	70.93	64.10	62.03	60.61	70.69	81.67

5B

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

	Dec-05	Mar-06	Jun-06	Sept-06	Dec-06	Mar - 07	Jun-07
Spot (Cash)	2247.50	2429.12	2477.34	2572.00	2850.00	2801.5	2794.7
3 Month	2236.50	2458.15	2520.61	2587.00	2800.00	2604.0	2571.4

5C

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Mar-06	Jun-06	Sept-06	Dec-06	Mar - 07	Jun-07	Sep-07
Wheat **(US$/m t)**	174.40	195.20	196.00	204.31	199.10	197.03	357.68
Coffee (USc/kg arabica brand)	250.6	227.40	242.10	282.99	258.12	252.90	282.28

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MAJOR STOCK MARKET INDICES
(End- of-Period)

	Mar-06	Jun-06	Sept-06	Dec-06	Mar-07	Jun-07	Sep-07
TOKYO							
Nikkei Index	17059.66	15505.18	16127.58	17225.83	17287.65	18138.36	16785.69
NEW YORK							
Dow Jones Industrials	11150.30	11150.22	11679.07	12463.15	12354.35	13408.62	13912.94
S & P Composite	1299.72	1270.20	1335.85	1418.30	1420.86	1503.35	1531.38
LONDON							
Financial Times SE 100	5964.6	5833.4	5960.8	6220.8	6308.00	6607.90	6486.40
FRANKFURT							
Dax Index	5683.31	6004.33	6596.92	6917.03	8007.32	8005.90	7861.42
ZURICH							
SMI Index	8023.30	7652.10	8425.91	8785.74	8976.99	9209.36	8886.00

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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