QUARTERLY MONETARY POLICY REPORT

October – December 2005

Volume 6 No. 3

Bank of Jamaica Quarterly Monetary Policy Report

OCTOBER - DECEMBER 2005

Volume 6 No. 3

Nethersole Place
Kingston
Jamaica

Telephone: (876) 922 0750-9
Fax: (876) 922 0854
E-mail: library@boj.org.jm
Website: www.boj.org.jm

ISSN 0799 1037

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that 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 reform of the Payments and Settlement Systems, including the legal and regulatory framework, the modernization and integration of payment systems, and the establishment of the oversight function for these systems.

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 in the December 2005 quarter was conducted in a generally improved macroeconomic environment characterised by fairly strong GDP growth and declining inflation. The Central Bank however, had to contend with challenges posed by persistent foreign exchange market instability resulting from continuing concerns regarding real returns on Jamaica Dollar assets. This was demonstrated in heightened demand for inflation hedging instruments, particularly those denominated in foreign currency. As a consequence, the Bank maintained a conservative monetary policy stance throughout the quarter as it sought to tighten Jamaica Dollar liquidity and limit the pass through to inflation from sharp depreciation in the exchange rate.

The Bank of Jamaica, accordingly, employed a two-pronged approach to base money management. This involved the sale of foreign currency in combination with the sale Government Securities from its own holdings, both of which absorbed excess Jamaica Dollar liquidity. The strategy proved fairly successful in containing the pace of exchange rate depreciation in the quarter and enabled the Bank to repurchase foreign currency from financial institutions experiencing a shortage of Jamaica Dollar liquidity. Against this background, the Jamaica Dollar which depreciated against its US counter part by 2.2 per cent and 0.57 per cent in October and November, respectively, appreciated by 0.14 per cent in December, resulting in a 2.6 per cent depreciation for the quarter.

Notwithstanding strong sales of foreign currency by the Central Bank in the review quarter, the net international reserves (NIR) of the Bank of Jamaica fell by only US$31.6 million to US$2087.4 million at end December, exceeding the programme target. The maintenance of a strong level of NIR was integral to minimising erosion of investor confidence in the quarter. This factor, coupled with the Government's commitment to fiscal adjustment despite a higher than budgeted deficit, contributed to the successful US$250.0 million Eurobond issue in October. In addition, the country earned positive reviews from international financial institutions and rating agencies on its management of the economic programme, despite significant external shocks in the second quarter of the fiscal year.

Evidence of an improvement in macroeconomic conditions was reflected in a further moderation in the rate of inflation to 0.9 per cent for the December quarter. This was relative to 4.2 per cent and 6.4 per cent for the September quarter and corresponding 2004 quarter, respectively. The primary factors responsible for the tempering in inflation in the December quarter were a fall in oil prices, lower transportation costs and a further decline in the price of starchy foods. The inflation rate for the quarter was the lowest outturn for a December quarter since fiscal year 2002/03. The declining trend in inflation was also reflected in the rate for the fiscal year to December, which was to 11.3 per cent relative to 11.6 per cent for the comparable period in 2004. Similarly, the 12-month point-to-point rate to December 2005 decelerated to 12.9 per cent from 13.7 per cent for the corresponding period in 2004.

Core inflation for the December 2005 quarter was estimated at 1.0 per cent, comparing favourably to 1.4 per cent and 1.7 per cent for the September 2005 and December 2004 quarters, respectively. The estimate for the quarter was also below the average of 1.3 per cent for the five previous December quarters. The annual average core inflation rate of 5.54 per cent at end December, was 98 basis points below the rate recorded at end December 2004. The containment in core inflation in the review period was achieved through maintenance of a tight monetary policy stance since July 2005, in a context where the Bank sought to manage persistent demand pressures in the foreign exchange market. Hence, growth in the monetary base was contained to a 0.7 per cent increase in the September quarter, relative to a targeted expansion of 2.7 per cent. This policy stance was maintained in the December quarter with base money growth limited to 22.4 per cent, broadly in line with target. The outturn for the December quarter was achieved in a context of seasonally high demand for the local currency and increased demand for foreign currency from the energy sector as well as, portfolio investors seeking to acquire assets with an inflation hedge.

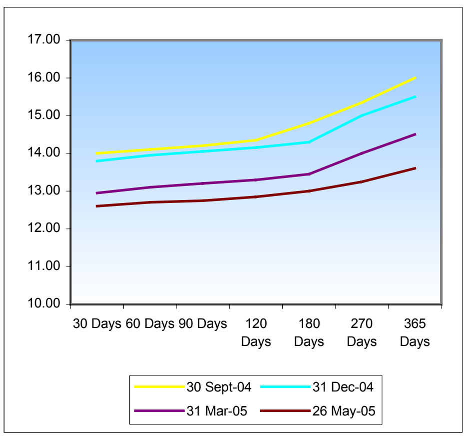
The economy is estimated to have grown significantly in the December quarter, following growth of 2.8 per cent in the September quarter and relative to a decline of 0.9 per cent in the December 2004 quarter. The main growth poles were ***Miscellaneous Services, Agriculture, Forestry & Fishing, Construction & Installation and Manufacturing.*** The improvement in ***Miscellaneous Services*** which followed a 1.7 per cent decline in the two previous quarters, was driven by an increase in tourist arrivals due to the impact of adverse weather conditions on competing destinations, aggressive advertising by the sector and an increase in airlift capacity. Expansion in ***Agriculture, Forestry and Fishing*** reflected normalisation in economic activities in a context where the industry was affected by adverse weather conditions for over a year. Growth in ***Manufacturing*** reflected return to full capacity by the country's petroleum refinery, since an explosion in 2004. The expansion in ***Construction & Installation*** was influenced by rehabilitation of infrastructure following hurricanes in 2005, as residential construction is estimated to have declined in the quarter. The economic expansion observed in the review quarter reflected increases in both **Gross Fixed Capital Formation** through an increase in investment spending and **Net External Demand.** However, there was an offsetting decline in **Public Consumption** while, **Private Consumption** remained weak. The increase in investments was consistent with the expansion in construction and an overall improvement in the Business Confidence Index.

The outlook for economic growth in the March 2006 quarter is very positive. Further improvement is anticipated in the goods producing sector consequent of continued recovery in agriculture and improvement in food and agro- processing. Concurrently, the services sector should continue to benefit from additional hotel rooms and increased airlift capacity in the tourism sector, as well as the recent marketing promotions overseas. The improvement in agricultural output should moderate inflationary pressures in the March 2005 quarter, notwithstanding some impulses from the near 17.0 per cent increase in the minimum wage. There is also an upside risk to inflation from a rise in oil prices. Improved seasonal foreign currency inflows should however, temper exchange rate movements in the quarter, thereby limiting the pass through to inflation. Concurrently, the downward trend in core inflation is expected to continue in the upcoming quarter, given containment in base money growth for the fiscal year to December. The continued moderation in inflation along with strong economic growth, augur well for improved investor confidence and a stable financial environment.

The Bank of Jamaica (BOJ) has embarked on a process of payment system reform to enhance the safety and efficiency of the system so as to reduce systemic risks, as well as minimize BOJ credit risk. This is critical in the context of the increasing use of cashless instruments. In addition, rapid growth in the importance of the money and securities markets in the payment system and their associated systemic risks, have demanded that greater attention be paid by the Bank to the interface between payment and securities settlement arrangements. It is against this background that the BOJ considers it critical to embark on a process of comprehensive reform of the payment and settlement systems including the legal and regulatory framework, the modernization and integration of payment systems and the establishment of the oversight function for payments and securities settlement systems. Included in this publication therefore, is a Box that presents the executive summary of the document entitled **Vision on the Future National Payments System**, circulated to key stakeholders in the payment system reform process**.** This Box is intended to provide a brief insight into the reforms already underway, as well as the future plans, in order to build awareness and enhance understanding by the general public.

Monetary Policy and Financial Markets

Figure 1.1
BOJ Open Market Operations Yield Curve



Bank of Jamaica acts to quell foreign exchange market instability

Table 1.1

Net International Reserves Oct- Dec 2005 Flows (US$MN)				
	Oct	**Nov**	**Dec**	**Total**
NIR	-40.0	14.8	-6.3	-31.6

Money & Credit

Monetary Policy and Base Money Management

Monetary policy in the December 2005 quarter was challenged by frequent bouts of instability in the foreign exchange market. Consequently, policy action centered on limiting the exchange rate pass-through to inflation and removing excess domestic liquidity from the system. The Bank repeatedly augmented the supply of foreign currency in the market and also sold Government of Jamaica (GOJ) securities from its holdings. The absorption from these activities partly offset liquidity from the net unwinding of open market instruments, which facilitated the seasonal increase in demand for Jamaican notes and coins. The heightened demand for local currency as well as, increased foreign inflows dampened the excess demand for foreign currency towards the end of the quarter. Within this context, the monetary base expanded by 22.4 per cent for the quarter, in line with the programme target.

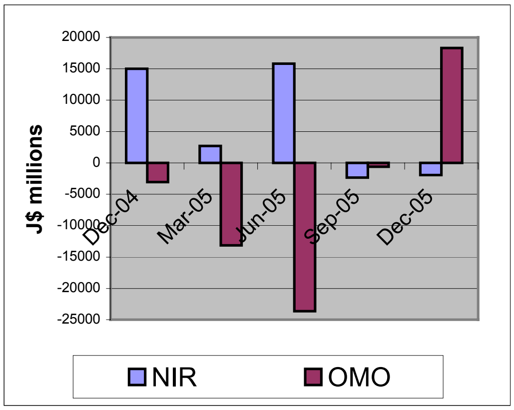
During the December quarter, the major challenge for monetary policy was the instability that prevailed in the foreign exchange market. To stem the foreign exchange volatility, the Bank of Jamaica adopted a two-pronged approach of selling foreign currency to the market, in conjunction with sales of its holdings of GOJ securities. The Bank's approach proved fairly successful in reducing the pace of currency depreciation, while maintaining interest rates at the same level since May 2005 (see **Figure 1.1**).

The sale of foreign currency during the quarter was a major factor behind the US$31.6 million decline in the Net International Reserves (NIR) (see **Table 1.1**). This decline, which was equivalent to a net absorption of $1 956.1 million from the system, partly offset liquidity emanating from within the Net Domestic Assets (NDA) where there was a net injection of $10 999.6 million (see **Figure 1.2**). The primary source of these funds was net maturities of open market instruments of $18 301.6 million. This liquidity was largely used to facilitate payments for foreign currency, GOJ domestic instruments and Jamaican notes and coins. The demand for the latter increased towards the end of the quarter as the public began spending for the end December holidays. This increased demand for currency helped to tighten domestic liquidity. Net currency issue amounted to $8 243.1 million for the quarter. This represented an increase of 30.1 per cent relative to end September.

Against this background, the monetary base expanded by $9 043.5 million or 22.4 per cent during the December quarter (see **Figure 1.3**) relative to the increase of 21.1 per cent set out in the monetary programme. The deviation from programme was due largely to greater unwinding of OMO than had been anticipated.

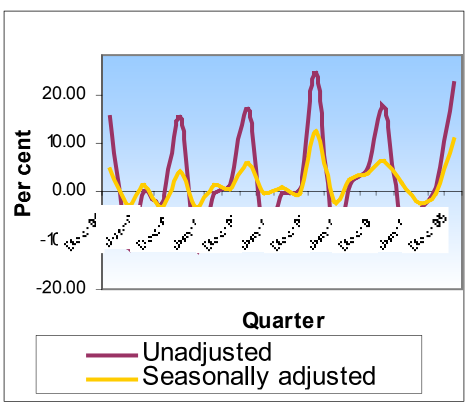
Figure 1.2

Effects of the NIR & OMO on liquidity*



* Absorption-negative, Injection-positive

Figure 1.3
Base Money



(Quarterly Change)

Money Supply

For the December 2005 quarter, broad Jamaica Dollar money supply (M3J) grew by 7.8 per cent, marginally higher than the 7.4 per cent recorded in the corresponding quarter of 2004. This outturn was also above the 6.9 per cent growth that was programmed, in a context where currency demand was higher than anticipated. The growth in currency was financed by a net unwinding of securities used to conduct open market operations (OMO). For calendar year 2005, M3J recorded lower growth relative to 2004 reflected in slower rates of increase in local currency deposits and currency in circulation.

During the review quarter, the measure of money supply that includes foreign currency deposits, M3, grew at a slower rate relative to the growth in M3J. This was attributed to a reduction in foreign currency deposits, which resulted in a decline in the ratio of foreign currency deposits to total private sector deposits. There was also a deceleration in the growth in M3* for 2005 relative to 2004, reflecting lower expansion in foreign currency deposits.*

For the December 2005 quarter, broad Jamaica Dollar money supply (M3J) increased by 7.8 per cent, relative to the 6.9 per cent growth anticipated in the monetary programme. The growth for the review quarter was relative to an expansion of 7.4 per cent in the December 2004 quarter (see **Figure 1.4**).

Figure 1.4
Money Supply
(Quarterly Growth rates)
December 2001 to 2005

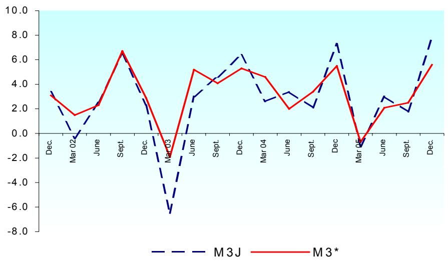


Table 1.2

Money Supply /1 (12-month growth rates)		
MJ	**Dec-04**	**Dec-05**
M1J	22.0	17.7
M2J	14.8	11.4
M3J	16.3	11.6
M*		
M1*	22.8	10.9
M2*	15.5	9.1
M3*	16.3	9.6

/1 M* Includes Foreign currency deposits

Table 1.3

INTEREST RATES IN THE DOMESTIC AND INTERNATIONAL MARKET			
	Nov-04	Sep-05	Nov-05
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**6.04**	**5.43**	**5.37**
Demand	3.34	3.16	3.39
Savings	5.71	4.92	4.97
Time	7.75	7.11	6.92
Foreign Currency	**3.21**	**3.34**	**3.27**
Demand	2.59	2.98	2.99
Savings	2.28	2.28	2.30
Time	5.12	5.07	4.86
6-MONTH TREASURY BILL RATE	**14.90**	**13.15**	**13.15**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**14.80**	**13.00**	**13.00**
PRIVATE MONEY MARKET 30 DAY RATE	**14.15**	**12.90**	**12.95**
6-MONTH U.S. TREASURY RATE	**2.27**	**3.67**	**4.15**

The expansion in M3J was reflected in increases in currency in circulation and local currency deposits of 23.1 per cent ($5 549.5 million) and 5.7 per cent ($9 312.8 million) respectively. The expansion in currency in circulation was in line with a heightening in demand for currency during the Christmas season.

The build up in local currency deposits was largely reflected in demand deposits, which grew by 22.1 per cent during the December 2005 quarter. This increase was the highest recorded since the September 2002 quarter and was largely attributed to activities of one commercial bank. Most of the increase occurred in December and could have resulted from aggressive marketing of the institution's chequing account facility.

Savings deposits and 'other deposits' increased by 5.1 per cent and 1.3 per cent, respectively, while time deposits fell by 5.3 per cent.

The main source of growth in M3J for the review quarter was a net unwinding of OMO securities amounting to $18 301.7 million. However, approximately $8 900.0 million of this was reabsorbed through direct sales of BOJ holdings of GOJ securities. This source of growth in M3J was further tempered by a decline in banking system credit to the public sector of $2 064.4 million and the $1 956.1 million reduction in the NIR. The reduction in public sector credit was largely reflected in to a build up in Central Government deposits, especially in October, and reflected the receipt of Eurobond proceeds in that month (see **Bond Market**). The decline in the NIR was largely attributed to the net sale of foreign currency by the Central Bank to the market in response to sustained demand pressures during the quarter.

For the December 2005 quarter, broad money supply, M3*, grew by 5.6 per cent, slower than the 7.8 per cent in M3J. This was due to a 0.2 per cent reduction in foreign currency deposits, which largely reflected a decline in time deposits. This decline was concentrated in December and coincided with the issue of a fixed rate US dollar bond by the government.

Figure 1.5
Deposits in Commercial Banks
(Quarterly Growth Rates)
December 2003 to 2005

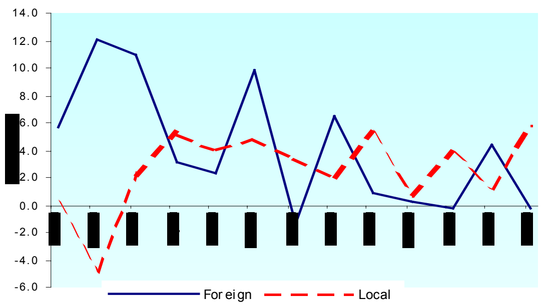


Figure 1.6
Foreign Currency Deposits to Total Deposits
December 2002 to December 2005

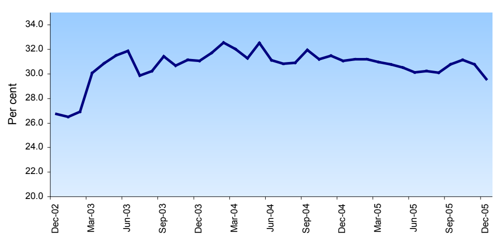
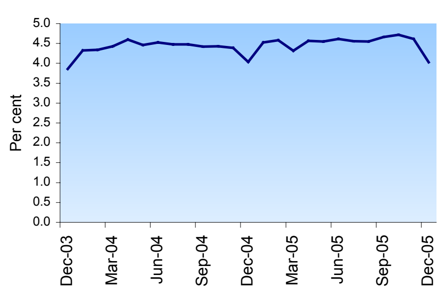


Figure 1.7
Money multiplier
(Quarterly Trend)
December 2003 to 2005



Against the background of the reduction in foreign currency deposits and the faster rate of growth in local currency deposits (see **Figure 1.5**), the ratio of foreign currency deposits to total private sector deposits declined to 29.6 per cent at end December 2005 from 30.8 per cent at end September 2005. The ratio at end December 2005 was the lowest since February 2003 when it was 26.9 per cent (see **Figure 1.6**).

In the context of the seasonal increase in demand for cash balances, there was an expansion in the currency to deposits ratio. The impact of this increase on the money multiplier was augmented by an expansion in the reserves to deposits ratio. This was largely attributed to the maintenance of higher precautionary balances by commercial banks in light of the seasonal increase in demand for currency by its customers (see **Table 1.4**). As a result, the money multiplier declined to 4.11 at end December 2005 from 4.66 at end September 2005 (see **Figure 1.7**). The multiplier at end December 2004 was 4.04.

During calendar year 2005, M3J increased by 11.6 per cent relative to 16.3 per cent in 2004. This deceleration was reflected in both local currency deposits and currency in circulation, which grew by 11.8 per cent and 11.2 per cent, respectively. The slowdown in the growth in local currency deposits was largely reflected in time deposits and savings deposits.

The nominal growth in currency in circulation for 2005 was 11.2 per cent relative to a 15.1 per cent expansion in 2004. This translated into a real reduction of 3.6 per cent for 2005, relative to a real growth of 1.3 per cent for 2004. The increased use of alternative means of payment such as point of sale transactions (POS) and demand deposits (chequing accounts) may have contributed to the real reduction in currency in circulation during 2005 (see **Table 1.5**).

In 2005, there was a significant deceleration in the growth in foreign currency deposits relative to 2004. This translated into a lower growth in M3* (see **Table 1.2**). The smaller build up in foreign currency deposits was in a context of the availability of relatively more lucrative investment options.

Table 1.4

COMPONENTS OF THE MONEY MULTIPLIER	Dec-04	Sep-05	Dec-05
	%	%	%
Currency to Deposits	17.17	14.67	17.08
Reserves to Deposits	11.86	9.92	11.41
Excess Reserves to Deposits	*3.93*	*2.04*	*3.84*
Cash Reserves to Deposits	*7.94*	*7.88*	*7.57*
Money Multiplier	**4.04**	**4.66**	**4.11**

Table 1.5

Alternative Means of Payment to Cash

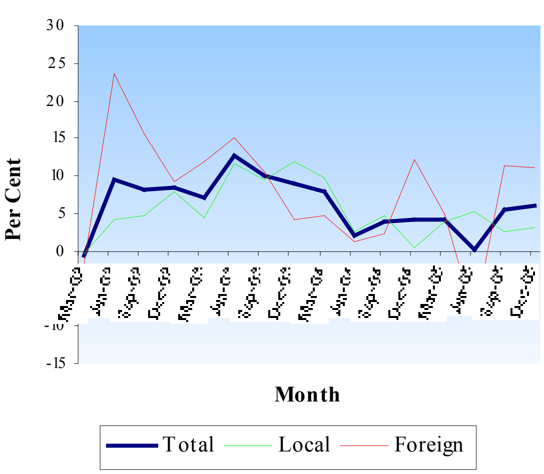
POS*		
Annual Growth (Pt.-to-Pt.)	*Dec 2004*	*Dec 2005*
Value (%)	-12.3	45.2
Volume (%)	10.5	13.6
Value (J$MN)	3,578.0	5,196.5
Local Currency Demand Deposits		
Annual Growth (Pt.-to-Pt.)	*Dec 2004*	*Dec 2005*
Value (%)	29.27	24.07
Value (J$MN)	28,536.8	35,406.7

*POS includes the use of debit and credit cards

Figure 1.8

Quarterly Growth Rates of Private Sector Credit

March 2002 to December 2005



Private Sector Credit

During the December 2005 quarter, private sector credit expanded by 6.0 per cent, well above the target outlined in the monetary programme. **Tourism** and **Personal Loans** continued to account for the largest proportion of growth in private sector credit. Led by **Tourism**, growth in foreign currency loans continued to outpace the expansion in local currency loans. The increase in credit coincided with a reduction in both the overall loan rates and the foreign weighted average loan rates.

The stock of credit outstanding at end December 2005 was $103 166.6 million, representing an expansion of 6.0 per cent (see **Table 1.6**). This outturn was well above the 2.9 per cent target outlined in the monetary programme for the review quarter. The expansion in credit in the review quarter surpassed the increases of 5.5 per cent and 4.5 per cent for the September 2005 and December 2004 quarters, respectively. The outturn for the review quarter largely reflected an 11.2 per cent increase in foreign currency denominated loans as domestic currency denominated loans expanded by 3.2 per cent (see **Figure 1.8**). However, annual growth in private sector credit for 2005 was 16.7 per cent, which was below the 19.6 per cent expansion observed during 2004.

Similar to the outturn in the September 2005 quarter, there was a large concentration of loans to **Tourism**. Loans to this sector expanded by 11.2 per cent and were largely comprised of foreign currency loans. There was continued buoyancy in **Personal Loans,** which expanded by 5.8 per cent during the review quarter. This category continued to constitute the largest proportion of outstanding credit (see **Figure 1.6**). Within **Personal Loans**, credit card receivables remained buoyant expanding by 10.6 per cent during the review quarter relative to the 1.6 per cent expansion recorded during the December 2004 quarter.

Loans to **Distribution** recorded robust growth of 6.3 per cent during the review quarter relative to growth of 5.9 per cent during the December 2004 quarter and the increase of 3.5 per cent during the previous quarter. The rate of growth of loans to **Professional & Other Services** decelerated to 3.8 per cent from 7.7 per cent during the previous quarter

Table 1.6

Commercial Bank Distribution of Total Credit to the Private Sector (Quarterly Flows)			
	Dec-04	Prov. Sep-05	Prov. Dec-05
Total Private Sector Credit	**3 796.6**	**5 091.0**	**5 818.7**
Loans and Advances	2 844.2	5 125.0	5 695.8
Other Investments and Private Debentures	952.4	-34.0	122.9

Table 1.7

Commercial Bank Distribution of Loans & Advances to the Private Sector (FLOWS J$M)			
	Dec-04	Sep-05	Dec-05
Agriculture & Fishing	-80.7	136.1	148.5
Mining & Quarrying	26.6	48.0	-33.0
Manufacturing	544.7	101.0	-171.4
Construction & Land Dev.	-2 328.4	-1 156.5	236.3
Transport, Storage & Comm.	549.7	-2 611.1	238.0
Tourism	1 924.0	4 260.7	2 310.9
Distribution	376.4	272.9	508.8
Professional & Other Services	99.6	526.6	281.9
Personal Loans	1 813.2	3 407.5	2 270.5
Electricity, Gas & Water	22.5	130.6	-91.3
Entertainment	-100.0	9.9	5.1
Overseas Residents	-3.6	-0.8	-8.7
TOTAL	**2 844.2**	**5 125.0**	**5 695.8**

but was higher than the growth of 1.6 per cent during the December 2004 quarter. With the exception of Manufacturing, Mining & Quarrying, Electricity, Gas & Water **and** Overseas Residents, all other categories recorded marginal increases during the review quarter (see **Table 1.7**).

In the context of instability in the foreign exchange market, there was a deceleration in the rate of growth of foreign currency loans during the review quarter. Foreign currency loans expanded by US$37.6 million or 6.7 per cent relative to an increase of 8.4 per cent in the previous quarter and 11.5 per cent in the corresponding period of 2004. The increase in foreign currency loans was driven by **Tourism,** which accounted for $33.4 million of this expansion in a context of construction and refurbishment activities taken place within the hotel industry. The loans to this sector reflected a normalization of credit in comparison to the previous quarter when there were extraordinary construction efforts within the sector due to the impact of the active hurricane season. The remaining sectors either recorded a relatively small increase or net repayments in foreign currency loans (see **Table 1.7**). During the calendar year, **Tourism** significantly increased its share of outstanding foreign currency loans as the sector continued to account for the largest proportion of foreign currency credit (see **Figure 1.9**).

As a result of the robust growth of foreign currency credit during the review period, the ratio of foreign currency loans to total loans increased to 35.4 per cent at end December 2005 from 33.0 per cent at end September 2005.

Interest Rates

The overall weighted average rate applicable to private and public sector loans decreased during the two months ended November 2005, consistent with the general downward trend in interest rates on loans over the last four years (see **Figure 1.11**). The overall rate declined by 33 basis points during the two-month period and was 58 basis points below the rate observed at end November 2004.

The weighted average loan rate on private sector loans denominated in domestic currency decreased by 37 basis points over the two months ended November 2005. The reduction in the rate largely reflected a decline in the rates on Commercial and Personal loans of 52 basis points and 7 basis

Figure 1.9
Sectoral Distribution of Commercial Bank Loans & Advances to the Private Sector
Per Cent of Outstanding Stock
December 2004 & December 2005

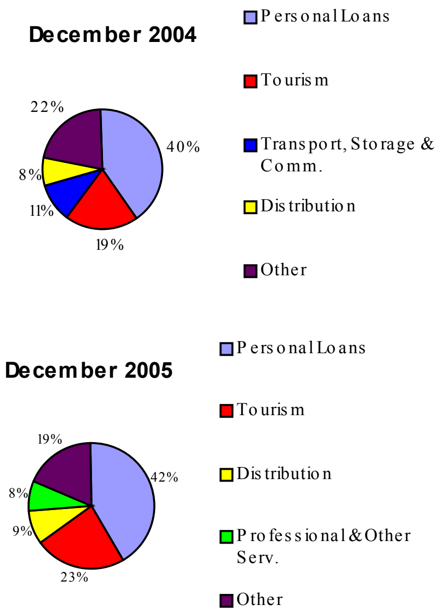


Table 1.8

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US$M)	Dec-04	Sep-05	Dec-05
Agriculture & Fishing	-0.1	0.2	1.5
Mining & Quarrying	0.0	0.0	0.0
Manufacturing	10.1	-1.8	-3.0
Construction & Land Development	0.0	5.9	-1.6
Transport, Storage & Comm	7.9	-44.4	5.1
Electricity, Gas & Water	0.0	0.0	0.0
Distribution	3.3	4.7	8.0
Tourism	26.2	64.5	33.4
Entertainment	-0.1	-0.1	0.1
Professional & Other Services	2.9	6.6	0.5
Personal Loans	5.5	8.0	-6.4
Overseas Residents	0.0	0.0	0.0
TOTAL	**55.7**	**43.6**	**37.6**

points, respectively. For the year ended November 2005, the rate declined by 34 basis points reflecting a decline in loan rates to all categories except Mortgage loans.

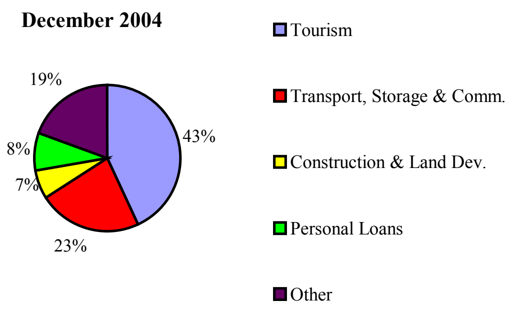
At end November 2005, the weighted average rate on public sector loans was 11 basis points below the rate at end September 2005 and 161 basis points lower than that at end November 2004. The reduction in the rate for the two-month period ended November 2005 reflected a decrease in the rate charged on loans to **Local Government & Other Public Entities**, as the rate charged on **Central Government** loans remained flat.

Despite continued increases in US interest rates, there was a slight decrease in the cost of foreign currency credit during the review quarter. The weighted average rate at end November 2005 was 9.23 per cent, 16 basis points lower than the rate at end September 2005. This decrease over the two-month period largely reflected a decline in the rates on **Personal** and **Commercial** loans. However, the weighted average rate on foreign currency loans at end November 2005 was above the rate that prevailed a year earlier and was reflected in higher rates charged on **Personal** and **Central Government** loans.

Performance Indicators

Consistent with the commercial banks, increased marketing thrust towards private sector lending, private sector credit continued to constitute a significant proportion of commercial banks' assets. The ratio of private sector credit to total assets increased to 28.3 per cent at end December 2005 vis-à-vis 27.5 per cent at the end of the previous quarter and the 25.9 per cent at end December 2004. There was also an improvement in the quality of the loan portfolio. At end December 2005, the ratio of past due loans (over three months) to total loans declined to 2.3 per cent relative to the 2.4 per cent at end September 2005 (see **Figure 1.12**). Also, the outturn at the end of the review quarter was below the 2.7 per cent at end December 2004 and remained well within the 10.0 per cent international benchmark.

Figure 1.10
Sectoral Distribution of Foreign Currency Loans & Advances to the Private Sector
Per Cent of Outstanding Stock
December 2005 & December 2004



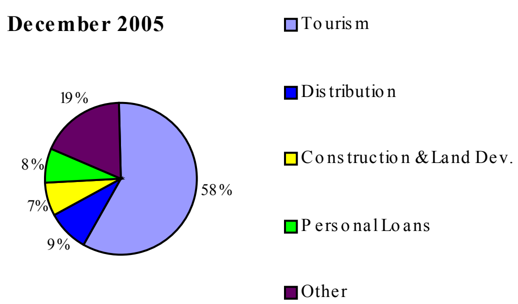


Figure 1.11
Commercial Banks' Weighted Average Loan Rate
November 2001 to November 2005

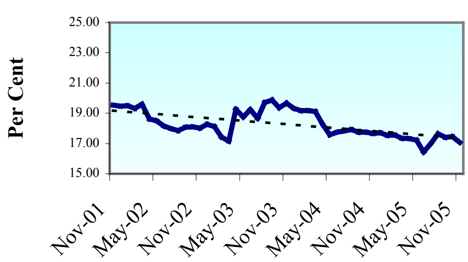


Figure 1.12
Commercial Banks Past due Loans Three Months and over to Total Loans
December 2003 to December 2005

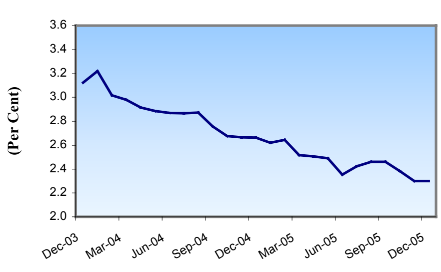


Table 1.9

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type Per Cent	Nov-04	Sep-05	Nov-05
Overall	**17.67**	**17.41**	**17.08**
Public Sector	**14.07**	**12.57**	**12.46**
Local Govt. & Other Public Ent.	11.75	11.30	11.25
Central Government	18.11	16.08	16.08
Private Sector	**19.06**	**19.09**	**18.72**
Instalment	23.94	23.29	23.31
Mortgage	20.26	20.23	20.37
Personal	30.20	29.33	29.26
Commercial	13.97	14.23	13.71

Inflation concerns lead Government to offer mainly variable rate and US dollar denominated instruments.

Table 1.10

GOJ Public Domestic Debt Raising October - December 2005	Amount Allotted (J$MN)	Amount Maturing (J$MN)	Net Issue (J$MN)
Treasury Bills	2,100.0	2,400.0	-300.0
Fixed Rate LRS	0.0	638.2	-638.2
Variable Rate LRS	874.2	554.0	320.2
Fixed Rate Investment Debenture	2,255.0	15,407.3	-13,152.3
Variable Rate Investment Bond	13,910.1	3,168.7	10,741.4
US$ Indexed Bond	0.0	4,249.9	-4,249.9
Fixed Rate Registered Bond	592.6	0.0	592.6
Sub-total	**19,731.9**	**26,418.1**	**-6,686.2**
Fixed Rate US$-denominated Bond	8,481.8	9,605.3	-1,123.6
Total (in J$)	**28,213.7**	**36,023.4**	**-7,809.8**

Bond Market

Activities in the local bond market for the December 2005 quarter were influenced by inflation concerns. As such, investors remained focused on procuring instruments which provided a hedge against inflation. This was reflected in a preference for US dollar denominated and GOJ variable rate instruments. In this context, there were net maturities on publicly issued GOJ fixed rate instruments. The government also made significant private placements during the quarter.

Interest rates on GOJ debt increased marginally during the quarter. Interest rates in the United States also continued to increase and as such, gave rise to a general price decline on Jamaica's global bonds. These price declines however, were buoyed by optimistic, yet cautious, reports from international rating agencies, as well as, the IMF on the Jamaican economy.

During the December 2005 quarter, there were net maturities of publicly issued GOJ domestic debt. Net maturities for the quarter amounted to $7 809.8 million and were mainly influenced by net redemption of fixed rate debentures (see **Table 1.10**). This was in a context of increased demand by investors for instruments which provided a hedge against inflation. Variable rate instruments accordingly accounted for approximately 52.4 per cent of the total value of public issues. In addition, the Government issued a fixed rate US dollar denominated bond to replace a number of maturing US dollar instruments. The instruments raised US$131.5 million and represented 30.1 per cent of the total debt issued. Despite inflation concerns, the net maturities during the quarter allowed the Government to offer successive medium term variable rate instruments at a repricing margin of 1.5 per cent above the three-month weighted average Treasury Bill yield.

Treasury Bill yields increased marginally during the period. The average yields on both the 90-day and 182-day instruments increased by 39 basis points to 13.34 per cent and 13.55 per cent, respectively (see **Table1.11**). For October to November, the average yields increased

Table 1.11

Treasury Bill Auctions & Maturities October - December 2005				
Issue Date	Tenor (days)	Avg. Yield (%)	Allotment (J$MN)	Amount Maturing (J$MN)
28-Oct-05	182	13.16	400	400
	91	12.95	300	
25-Nov-05	182	13.15	400	400
	91	12.98	300	300
	365			300
9-Dec-05	273			300
23-Dec-05	182	13.55	400	400
	91	13.34	300	300
Total			**2,100**	**2,400**

**Avg. Yield relates to allotment*

Table 1.12

Placements and Maturities* in BOJ OMO Instruments: October - December 2005			
	Maturities	Placements	Net Maturities
	(%)	(%)	(%)
30-day	38.7	48.5	15.0
60-day	5.3	5.9	4.0
90-day	12.3	15.6	4.2
120-day	4.0	4.5	3.0
180-day	16.5	7.2	39.2
270-day	8.4	2.7	22.0
365-day	14.7	15.6	12.6

**excludes overnight transactions during the period*

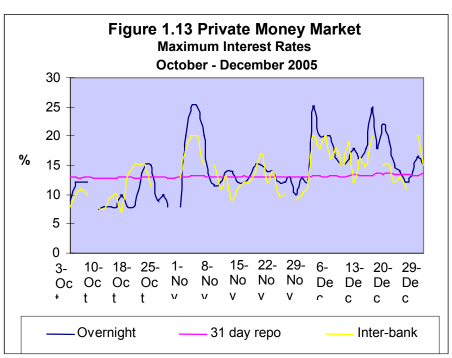


Figure 1.13 Private Money Market
Maximum Interest Rates
October - December 2005

marginally. Hence, the overall increase was influenced by the outturn of the December auction where the auction took place during a period of relatively tight liquidity.

Institutions unwound a portion of their OMO instruments to facilitate the payments for the high currency orders in December, as well as the financing of hedge instruments. Net OMO maturities totalled approximately $18.3billion as compared to net *placements* of approximately $623.1 million in the previous quarter. There was also a shortening of the maturity structure during the quarter (see **Table 1.12**), consistent with the expectation that interest rates would either increase or at least remain unchanged.

Private rates increased on average over that of the previous quarter. Overnight rates averaged 14.2 per cent, some 466 basis points higher than that of the previous quarter, while inter-bank rates averaged 13.3 per cent having increased on average by 279 basis points from the previous period. The average on the 30-day tenor increased by 26 basis points to 13.1 per cent. (See **Figure 1.13**) The spike in rates was associated with tightness of liquidity within the market which coincided with the issue of variable rate bonds, the sales of securities by BOJ and the concentration of Jamaica Dollar liquidity in one institution.

On average, yields on GOJ global bonds increased during the quarter against a backdrop of an increase of 50 basis points in US interest rates (see **International Developments**). The increase was reflected in the yields on the Euro denominated bonds, which responded to the exchange rate developments between the Euro and the US dollar, as well as the interest rate differential between these assets. On the other hand, the yields on the most recently issued US dollar denominated bonds maturing in 2022 and 2025 declined by 2.3 and 1.22 percentage points, respectively (see **Figure 1.15**). The more recent bond, the 2025, was issued on October 18, 2005. The issue amounted to US$250.0 million at a coupon rate of 9.25 per cent (or 478 basis points above comparable US Treasuries).

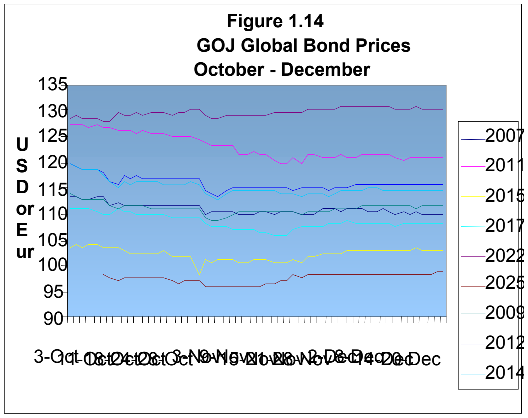


Figure 1.14
GOJ Global Bond Prices
October - December

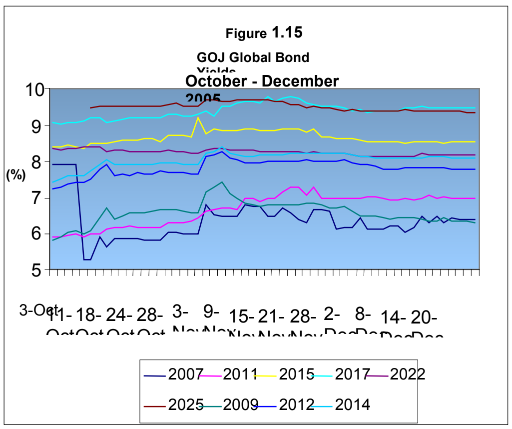
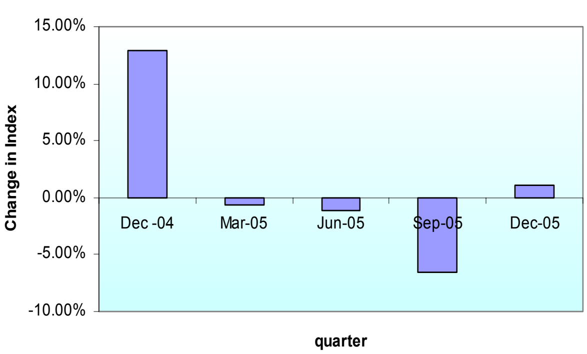


Figure 1.15
GOJ Global Bond Yields
October - December 2005

Figure 1.16
Quarterly Changes in the
Main JSE Index
December 2004 - December 2005



Source: Jamaica Stock Exchange

Stock Market

The stock market registered marginal growth in the December 2005 quarter following declines of the previous three quarters. Growth of the Main Jamaica Stock Exchange (JSE) Index took place in a context of a challenging macroeconomic environment that had a dampening effect on the attitude of equity investors for most of the quarter. Nevertheless, as institutional investors became more optimistic about the market in December, their increased trading activity influenced overall gains in the indices for the quarter.

For most of the December quarter, equity investors continued to be apprehensive towards the stock market. The listed companies continued to report disappointing earnings results and this, together with the challenges associated with inflation, the foreign exchange market and the slow rate of growth of the economy, turned investors away from the stock market.[1] Towards the end of the quarter, however, institutional investors increased their presence in the market in anticipation of a historically positive first quarter (see **Table 1.13**).[2] This led to increases in the volume and value of shares traded that provided the quarterly gains in all three market indices.

Relative to end September 2005, the Main JSE Index, the All Jamaica Composite Index and the Jamaica Select Index increased by 1.1 per cent, 3.5 per cent and 4.3 per cent, respectively. Growth in the Main JSE Index followed the declines of 0.6 per cent, 1.2 per cent and 6.6 per cent in the previous three quarters, respectively (see **Figure 1.16**). Nevertheless, the market was down by 7.2 per cent relative to the December 2004 quarter.

Equity investors continued to be disappointed by the nature of the earnings reports that were released by many of the listed companies. These earnings reflected the challenges faced by some of the sectors of the economy that are represented on the stock market. A relatively low interest rate environment and declining returns from local equities resulted in lower revenues and profits for some of the financial companies. The other sectors of the economy were affected more by the decline in consumers'

[1] For January to September 2005, the economy was estimated to have grown by 1.0 per cent compared to 1.8 per cent in the corresponding period in 2004.
[2] Institutional investors include the managers of pension funds and unit trusts.

Table 1.13
First Quarter Changes in the
Main JSE Index
2000 – 2005

Yea	Month/Quarter			
	January	February	March	Quarter
	(Per Cent)			
2000	-1.9	20.6	4.8	24.1
2001	-1.6	-0.7	5.2	2.8
2002	-0.1	3.8	6.8	10.7
2003	-1.6	4.0	1.2	3.5
2004	7.8	9.9	24.5	24.6
2005	5.1	-3.5	-2.0	-0.6

Source: Jamaica Stock Exchange

Table 1.14
Top 10 Advancing Stocks
December 2005 quarter

Sectors / Companies	Price at 30-Dec-05 $	Qtr. Change %
Tourism		
Ciboney Group	0.09	200.0
Conglomerates		
Jamaica Producers Group	34.51	19.8
Other Services		
Kingston Wharves	6.00	17.6
Financial Services		
JMMB Ltd.	16.00	17.6
CCMB	22.50	9.8
Manufacturing		
Seprod	16.00	14.2
Carreras Group	36.00	12.5
Desnoes & Geddes	10.20	10.6
Banking		
FCIBJ Ltd.	18.01	16.2
Telecommunications		
Cable & Wireless	1.48	13.8

Source: Jamaica Stock Exchange

disposable and real incomes, higher input costs and a generally apprehensive outlook for the economy.[3]

Among the companies that reported a decline or moderate growth in earnings were Grace, Kennedy & Company, Pan Jam Investments, Jamaica Money Market Brokers Ltd. and The Gleaner Company Ltd.

As the returns from the stock market became less attractive, investors continued to shift to foreign currency denominated assets as a hedge against the high rates of inflation.[4] This portfolio allocation decision was reflected in a rate of depreciation of 2.6 per cent of the Jamaica Dollar relative to the US dollar. This compares with a depreciation of 1.7 per cent during the September quarter (see **Foreign Exchange Market**).

The reaction of investors to the adverse macro- and microeconomic conditions was more evident in market declines for the first two months of the quarter. However, this was followed by a turnaround in the market in December, as institutional investors began to purchase stocks in anticipation of a rebound in the market at the beginning of the New Year. This difference in market sentiment during the quarter was borne out by the indicators of market activity in each month.

The Main JSE Index had declined by 0.9 per cent and 1.7 per cent in October and November, respectively, but registered a growth of 3.8 per cent in December. There was also a noticeable increase in the value of shares traded in December by 209.5 per cent in contrast to the declines of 47.6 per cent in October and 5.5 per cent in November. Despite this upturn, however, the volume of shares traded and the number of transactions for the quarter declined by 16.9 per cent and 13.1 per cent, respectively, relative to the September quarter (see **Figures 1.17 & 1.18**).

The performance of the stock market in the review period reflected the generally cautious outlook for listed companies and the economy by equity investors. However, with the expected moderation in the rates of inflation and improved conditions in the foreign exchange market, a more

[3] For the September 2005 quarter, the Index of Business Confidence declined to 97.2 from 122.8 in the June 2005 quarter while the Index of Consumer Confidence declined to 97.5 from 107.7 in the second quarter. Both are forward-looking measures of confidence in the Jamaican economy.
[4] The point-to-point rate of inflation at end November 2005 was higher than expected at 13.5 per cent.

Figure 1.17
Monthly and Quarterly Volume of Shares Traded
July 2005-December 2005

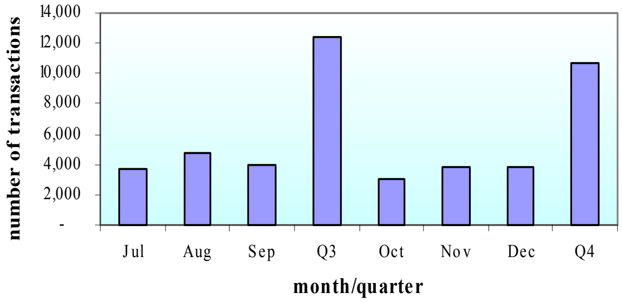
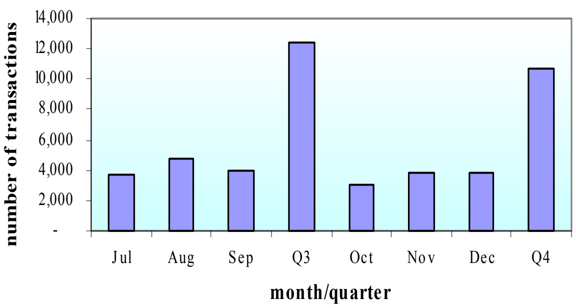


Figure 1.18
Monthly and Quarterly Transactions
July 2005 - December 2005



Source: Jamaica Stock Exchange

favourable investment climate is expected for the March 2006 quarter. The activity in the upcoming quarter is also expected to be enhanced by the Initial Public Offering of Supreme Ventures Ltd. on the stock market in January.

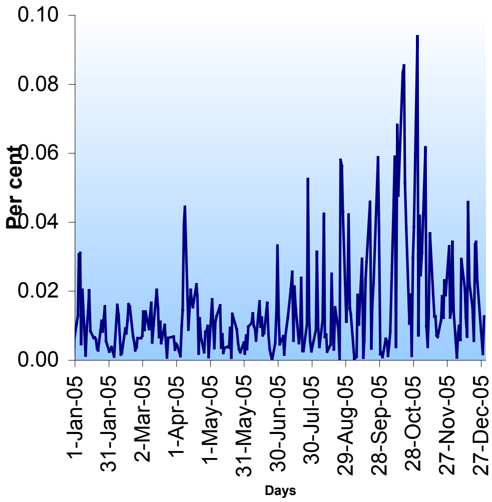
Foreign Exchange Market

The instability that emerged in the foreign exchange market during the September 2005 quarter continued in the December 2005 quarter (see *Figure 1.19****). The average selling exchange rate depreciated by 2.6 per cent for the quarter, compared with an average depreciation of 1.1 per cent during the preceding two quarters. This movement in the exchange rate was, however, tempered by the activities of the Central Bank in the foreign exchange and bond markets during the review period (see*** *Bond Market****).***

The pressures in the foreign exchange market were influenced primarily by continued concerns about real returns on Jamaica Dollar assets, as well as expectations of further monetary tightening in the USA. In this context, there was some portfolio switching during the quarter, indicated by a significant decline in net private capital inflows to the economy. Notwithstanding the significant sale of US dollars by the Bank, the NIR was above the programmed level at the end of the quarter. The gross reserves at end December 2005 represented 18.9 weeks of estimated goods and services imports, well above the international benchmark of 12 weeks.

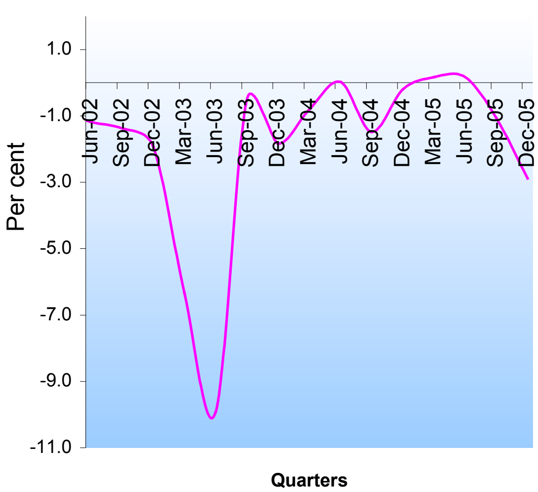
The weighted average selling rate of the Jamaica Dollar vis-à-vis the US dollar depreciated by 2.6 per cent during the December 2005 quarter, compared with an average rate of depreciation of 1.1 per cent over the two preceding quarters (see **Figure 1.20**). This movement brought the exchange rate to J$64.58 = US$1.00 at end-December 2005, relative to J$62.89 = US$1.00 at the end of the previous quarter.

Figure 1.19
Exchange Rate Volatility (*)



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

Figure 1.20
Percentage Change in Weighted Average Selling Exchange Rate (period average) (J$1.00= US$)



Consistent with the accelerated rate of depreciation over the quarter, particularly in October and November, there was a significant increase in the weekly trading range[5] for the exchange rate, relative to the September 2005 quarter (see Figure 1.24) The trading range increased by 45.0 per cent, relative to the September 2005 quarter, to an average of J$0.25 for the review period. However, there was a marginal decline in the weekly trading range in December 2005, particularly in the context of increased foreign currency supplies to the market. Similarly, there was a 10.0 per cent increase in the foreign exchange rate bid-ask spread, expressed as a percentage of the buying rate over the review period, relative to the September 2005 quarter (see **Figure 1.22**).

The instability in the market reflected expectations of lower real returns on Jamaica Dollar denominated assets in the context of shocks to inflation. This shift in expectations was underpinned by the accelerated depreciation in the exchange rate from July 2005, which might have also served to increase investors' perception of exchange rate instability. Additionally, the market may have been affected by the monetary tightening in the USA, which narrowed the interest rate differential between Jamaica and US dollar denominated assets (see **International Developments**). The instability in the exchange rate, particularly in October, reflected the demand for the GOJ US$250.0 million Eurobond which was floated in the month (see **Bond Market**).

The shift in investor sentiments resulted in an estimated decline of US$340.0 million in net private capital inflows, relative to the September 2005 quarter. This was partly reflected in a US$80.3 million increase in the net foreign currency positions of the Authorised Dealers, the major intermediaries in the market. Foreign exchange sales to the market by this segment declined to US$37.5 million in the review period, relative to net sales of US$117.4 million in the September 2005 quarter (see **Figure 1.23**).

The effect of the fall in net private capital inflows on the market was estimated to have been partly countered by a decline of approximately US$121.0 million in net demand to finance current account transactions, relative to the September 2005 quarter. The lower net demand was mainly influenced by an estimated US$103.6 million expansion in foreign exchange inflows, principally associated with higher private remittances, as well as increased earnings from

[5] The trading range is defined as the difference between the high and low quotes for the sale of US dollars over a particular period. The trading range is one indicator of risk or uncertainty.

Figure 1.21
Weekly Exchange Rate Movement

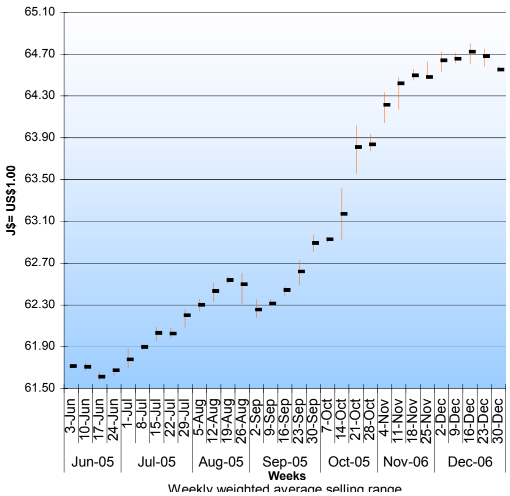


Figure 1.22
Foreign Exchange Spread as a Percentage of Buying Rate

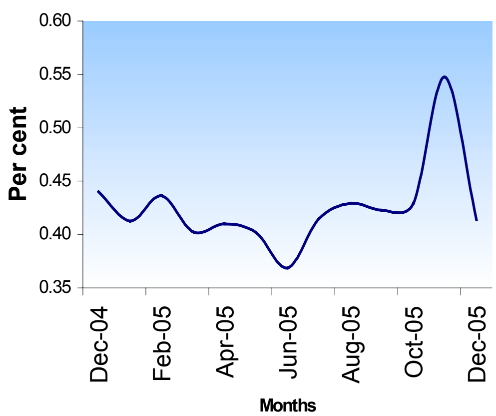
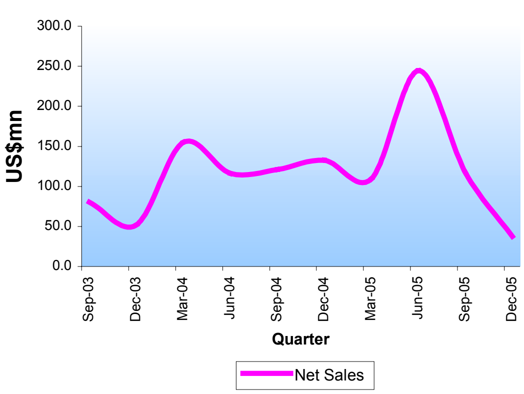


Figure 1.23
Authorised Dealers Net Foreign Currency Sales



tourism and non-traditional exports. Expenditure on imports, particularly fuel, was also estimated to have declined for the quarter in the context of a 4.1 per cent fall in the price per barrel of oil on the international market.

To assuage the pressures in the market and to ensure orderly adjustments in the exchange rate, the Bank net sold US$272.1 million (excluding surrenders and regular mining related purchases), during the quarter, relative to net sales of US$95.7 million in the September 2005 quarter[6]. In the context of the foregoing, the NIR fell by US31.6 million to US2 087.4 million at the end of the December 2005 quarter (see **Table 1.15**). The Bank's gross reserves at end-December stood at US$2 169.0 million, representing 18.9 weeks of estimated goods and services imports, well above the international norm of 12 weeks.

[6] Net sales, inclusive of surrenders and mining related purchases to the market, amounted to US$128.4 million during the review quarter. For the September 2005 quarter the Bank net purchased US$40.2 million.

Table 1.15

Net International Reserves (US$MN)			
Month	Stock	One Month Change	Three Month Change
Dec-04	1858.5	42.5	242.0
Jan-05	1847.5	-11.0	20.9
Feb-05	1831.0	-16.5	15.0
Mar-05	1901.6	70.5	43.1
Apr-05	2010.4	108.9	162.9
May-05	2074.5	64.1	243.5
Jun-05	2156.8	82.3	255.2
Jul-05	2149.2	-7.6	138.8
Aug-05	2117.5	-31.7	43.0
Sep-05	2119.0	1.5	-37.8
Oct-05	2079.0	-40.0	-70.3
Nov-05	2093.8	14.8	-23.7
Dec-05	2087.4	-6.3	-31.6

***BOX 1.* PAYMENT SYSTEM MODERNISATION IN JAMAICA**

Introduction

The Bank of Jamaica (BOJ) has embarked on a process of payment system reform to enhance the safety and efficiency of these systems in order to reduce systemic risks, as well as minimize BOJ credit risk. The BOJ has assumed a leadership role in order to coordinate the necessary actions to achieve an overall upgrade of the payment systems.

Due to the growth in use of cashless instruments in Jamaica, emphasis must be placed on enhancing the safety and efficiency of the payments system. The rapid growth in importance of the money and securities markets in the payment system and their associated systemic risks have also demanded that greater attention be paid by the Bank to the interface between payment and securities settlement arrangements. It is against this background that the BOJ has considered it critical to embark on a process of comprehensive reform of the payment and settlement systems including the legal and regulatory framework, the modernization and integration of payment systems, and the establishment of the oversight function for payments and securities settlement systems.

A National Payments System (NPS) consists of a defined group of institutions and a set of instruments and procedures, used to facilitate the circulation of money within the country and internationally. The NPS is therefore a core component of the broader financial system and can be viewed as the infrastructure that provides the economy with the channels or circuits for processing the payments resulting from the many different types of economic transactions that take place on a daily basis. A well functioning NPS requires a delicate balance between market-driven competition, cooperation and public good considerations. Taking account of the previous points, it is clear that a comprehensive NPS comprises not just the funds transfer mechanisms – payment processing organizations, communications networks, and computer systems – but includes all of the following: institutions providing financial intermediation; a legal and statutory framework; rules, regulations and agreements; appropriate payment instruments; processing systems and procedures; a cost effective technological infrastructure; clearing and settlement mechanisms that adequately balance risk and efficiency requirements; providers of access to payment-related services; and a carefully selected range of payment-service providers and products that satisfy market needs at acceptable costs.

Any country's economy can be viewed as a series of layers in an inverted pyramid, in which each layer is supported by the layers beneath it. The broadest layer of the pyramid represents the real economy and the financial markets: the buying and selling of goods and services throughout the nation. It is supported by the country's banking system - the next level of the pyramid - which provides payment services to all sectors of the economy.[7] The third level consists of a limited number of interbank value transfer systems through which payment and other financial transactions are processed. The final settlement of funds-transfers takes place across the accounts which approved institutions hold with the central bank, whose pivotal role is vital to the functioning of the economy as a whole. The NPS is therefore a core component of the broader financial system

Completed Reform Efforts

Cash and cheques are the major means of making payments in Jamaica. However, in recent years strong efforts have been made to establish and improve electronic funds transfer systems. An important achievement in this context was BOJ's setting up of CIFTS (Customer Inquiry and Funds Transfer System) in 1993. CIFTS is a network operated by the Bank of Jamaica that facilitates the exchange of payments among financial institutions.

[7] Individual, Retail, Industrial & Commercial, Financial, Government, and International Sectors.

Payment instructions that have been approved by the participants are interfaced to the Bank of Jamaica's accounting system where they are entered into CIFTS and settlement takes place on a deferred net basis. Availability of funds to CIFTS members occurs normally at the start of the next business day. During the day, participants are provided with real-time access to all data relating to their CIFTS-balance. Payment instructions entered into the system are final as the BOJ guarantees all outgoing funds transfer instructions. There are about 30 institutions participating in the CIFTS system. Access is granted to commercial banks, financial institutions licensed under the Financial Institutions Act, primary dealers and the Jamaica Central Securities Depository (JCSD) and its broker members. The daily average number of transactions made through CIFTS is approximately 100.

In addition to CIFTS the Central Bank operates a clearing system for small and large value payments. The clearinghouse was established under Article 27 of the Bank of Jamaica Act ("The Bank may promote the establishment of bank clearing systems and provide facilities for the clearance and settlement of transactions between commercial banks".) In October 2002, a privately owned automated clearing house (ACH) replaced the manual clearing system, allowing the electronic clearing and settlement of negotiable instruments among the seven clearing banks. New rules were introduced to coincide with the implementation of the ACH. The newly formed Jamaica Clearing Bankers Association (JCBA), which is comprised of the clearing banks (BOJ and the six commercial banks), is responsible for the administration of the ACH and the enforcement of its Rules and By-laws. The establishment of the ACH has allowed for more efficient and predictable settlement arrangements as the recourse and hold periods for cheques have been shortened and synchronized. Customers now receive cleared funds on a cheque deposit within T+3 instead of the five to seven days that previously obtained. In relation to their account monitoring capability, significant enhancements are being derived from the ACH. Banks now have timely intraday information not only on CIFTS activity but also on ACH settlement balances on their account as settlement takes place twice daily and files are uploaded to CIFTS at those times.

In January 2004, the manual foreign exchange clearing process was expanded to include items drawn on local commercial banks in the major foreign currencies. Eligible items now include drafts/cheques drawn by local banks in US dollars, Great Britain Pounds, Canadian dollars and Euro; drafts/cheques drawn by account holders in USD, GBP, CAD and Euro on their accounts at local commercial banks; and US dollar cheques drawn on 'Payable Through' accounts maintained by local commercial banks with overseas correspondents. Banks settle bilaterally the balances resulting from the exchange of these foreign currency items. Settlement amounts exceeding 10 000 units of the given currency must be settled by way of wire transfer on the next business day for US and Canadian dollars and within two business days for other currencies. Smaller payments may be settled by way of a draft drawn on the member's local or foreign correspondent bank account. In practice, banks opt to make wire transfers even for small amounts.

Unlike local currency, foreign currency items are not settled using Central Bank assets but are settled bilaterally on a net basis by wire transfers to/from correspondent bank accounts held by the clearing banks. Foreign currency clearing items are also exchanged in the Clearing House at 7:30 a.m. daily.

Payment instructions entered into CIFTS and items cleared through the ACH are all settled in the Central Bank Accounting System (CBAS) on the books of the Central Bank. Each account holder has to pledge securities at the Central Bank. Eligible collateral includes securities issued by the Central Bank or by the Government. The amount of the required collateral is periodically recalculated, based on the average net debit position of the bank in question over the last quarter and is individually determined. If at end of day an account holder does not succeed in funding its net debit position - resulting from the posting of settlement operations on his account - the BOJ may at its discretion extend a credit facility by way of a repo. Otherwise the participant's account becomes overdrawn. The rate applicable to commercial banks' overdrafts varies in accordance with the current policy stance of the monetary authorities.

A major achievement in the Jamaican financial services industry has been the creation of a service platform for non-cash retail banking services. JETS Limited, an Electronic Banking Service company, is a joint venture among several of Jamaica's leading financial institutions. The company's registered service brand, MultiLink, is used by all member institutions. JETS utilises a shared Electronic Transaction Switching Network that allows withdrawals at cash dispensers (ABM), electronic funds transfer (EFT) services, facilitates payments by providing debit, Point of Sale (POS) services, and effects settlement between members. Debit cards used for withdrawing cash or making payments in an EFT/POS environment are fully interoperable among JETS members. Each member is required to secure its net daily settlement obligations by pledging marketable securities to JETS. Settlement takes place on a net basis on the business day following transaction date.

With regard to security settlement systems, the securities market in Jamaica is dominated by Government of Jamaica (GOJ) debt. The BOJ, as agent of the Government, has established an electronic front-end system, e-Gate, for the issue of Government securities in the primary market. Some of these (Treasury Bills, Local Registered Stocks) are issued by way of auction on a discount basis. Others (USD Indexed Bonds and Debentures) carry fixed coupon rates and are issued at par. This allows Primary Dealers, commercial banks and merchant banks to have direct access to primary issues. The trading of Government securities takes place over-the-counter (OTC). Securities dealers may use CIFTS or cheques to settle securities trades, while the Ministry of Finance (MOF) as registrar administers the transfer of legal title.

The sale of equity securities is conducted on the Jamaica Stock Exchange ("JSE"). During the past several years, the JSE has modernized its operations. The first step was the establishment of the Jamaica Central Securities Depository ("JCSD"), a wholly owned subsidiary of the JSE in 1999. The JCSD as well as broker dealers operate accounts at the BOJ and transfer funds through CIFTS for the settlement of equity trades. The JSE has also implemented an electronic trading system called SUNRISE. Since the trading system is linked to or "coupled" with the JCSD, trades are effected through book entry transfers of ownership of the securities. In order to trade with a security it is blocked in the account of the seller before the security is traded and the transfer of title is effected when payment is received.

Despite the improvements mentioned above, the BOJ and the financial institutions recognize that the present domestic system is limited in regard to the availability of payment instruments and does not satisfy fully the needs of users in an evolving market economy. The BOJ has assumed a leadership role in coordination with other regulators and, with the active cooperation of the senior management of all financial institutions, is undertaking an initiative to modernize the national payment mechanisms. The main conduit to this objective is through the use of appropriately designed, safe and efficient automated systems and the introduction of non-cash electronic payment instruments such as electronic debit and credit payment instructions and transactions initiated through debit and credit cards.

Future Reform Efforts

The BOJ is broadening the scope of the reform to payments system as a whole. Elements included in the reform effort are: improvement of the legal and regulatory framework, modernization and integration of payments systems and the establishment of the oversight function for payments and securities settlement systems.

Each of the typical components of modern payments system architecture requires a set of strategic decisions to be made on a country-by-country basis in terms of its design, scope and ownership. Developing the strategy means giving shape to the components in the context of Jamaica. The proposed model corresponds to the characteristics of Jamaica and its needs, helping to achieve the objective of financial stability.

Large value systems are the most significant component of the national payments system. This is because they are able to generate and transmit disturbances of a systemic nature to the financial sector. The BOJ will operate a modern Real Time Gross Settlement (RTGS) system, which will represent the backbone of the payments system in Jamaica.[8] To this end, the BOJ will initiate the launch of a large-value transfer system (LVTS) with a RTGS function that will replace the current CIFTS. The RTGS system will have clear rules and procedures, which will specify all the tools for managing legal, financial and operational risks. The design of the system will include the provision of management tools to handle liquidity risks.

The design of the RTGS will include: 1) the strengthening of a robust and efficient communication network between the Bank and system participants, which could reduce and eventually eliminate the use of manual and paper-based procedures. 2) The strengthening and enforcement of strict security measures both for physical and electronic access to the system. 3) Implementation of contingency plans and disaster recovery mechanisms, including secondary sites.

The LVTS will be integrated safely and efficiently with "straight through processing" with other systems. The system will also be used for settlement of retail systems and appropriate interfaces will be implemented. Additionally, the system will be integrated with all securities settlement systems to achieve delivery versus payment (DVP).[9]

Financial risks in the ACH will be minimized by removing proactively all large value items from the cheque clearinghouse and, eventually, some forms of guarantee will be introduced. The establishment of settlement assurance procedures and its associated costs will be reviewed to determine the "systemic importance" of the ACH.

The JCSD proposes to expand its services for the custody, trading and settlement of **fixed income securities**. The long-term objective is to have all new issues of GOJ and BOJ securities issued directly into the depository. The JCSD will link securities transfers to funds transfers in a way that achieves DVP without the need for the movement of the physical securities. This will reduce the cost associated with settlement and custody and the risk of destruction or theft of certificates and cheques.

The current system for Government payments will be strengthened under the proposed system. The bulk of collection and disbursements of the public sector will be executed electronically using the current and envisaged systems. This is to ensure that all the benefits of the payments reform be accrued by all segments in the country through an increased efficiency in the payments flow by the need to maintain lower idle resources in bank accounts. The cost reduction and efficiency gains for Government payments are a significant objective of the reform effort, that itself facilitates cost recovery in a shorter time frame.

Conclusion

The BOJ, as payment system overseer and as banking supervisor, and the FSC will evaluate, identify, and implement procedure and process changes to address any weaknesses or inconsistencies in the regulatory arrangements and assure a high level of co-operation in the way that policies are implemented. Joint task forces will be created to address problems of common interest and appropriate memoranda of understanding between regulators and supervisors will be prepared and observed.

A National Payments Council (NPC) has recently been created in Jamaica under the leadership of the BOJ. This body includes representatives from all major stakeholders with an interest in payments and securities clearance and settlement systems improvements. The NPC will be an extremely useful tool to secure constructive dialogue between regulators and market participants.

[8] In the case of real-time gross settlement (RTGS) systems, payment transfers are settled continuously on a transaction-by-transaction basis at the time they are received (that is, in real-time).

[9] The DvP concept seeks to eliminate risk from securities transactions by ensuring that sellers give up their securities if, and only if, they receive full payment and vice versa.

2. Real Sector Developments

Table 2.1

SECTORAL CONTRIBUTION TO GROWTH December 2005 Quarter	Estimated Impact on Growth
GOODS	+ve
AGRICULTURE FORESTRY & FISHING	+ve
MINING & QUARRYING	-ve
MANUFACTURING	+ve
CONSTRUCTION & INSTALLATION	+ve
SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Inst.	+ve
TOTAL GDP	+ve

Estimates of economic performance in the December2005 quarter suggest a continuation of the growth momentum from the September 2005 quarter. This growth is primarily reflective of a normalisation in economic activities relative to the comparable period of 2004, when the economy was affected by adverse weather conditions. In that context, the indicators of economic performance suggest that all sub-sectors grew in the review period with the exception of ***Mining & Quarrying****, (see* ***Table 2.1****). During the quarter, the primary contributors to growth were* ***Agriculture Forestry & Fishing****, and* ***Miscellaneous Services****.* For calendar year 2005, positive economic growth is expected, in spite of the weak economic performance in the first half of the year.

From the perspective of aggregate demand, there were estimated real increases in ***Gross Fixed Capital Formation*** *and* ***Net External Demand****, which were partially offset by declines in* ***Public Consumption Spending*** *as the growth in* ***Private Consumption*** *remained weak.*

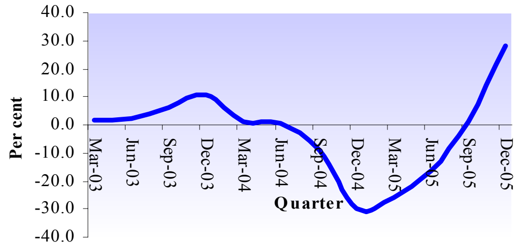
Positive economic performance for December 2005 quarter

Aggregate Supply

The Bank's assessment of real sector activity suggests that the Jamaican economy grew appreciable during the December 2005 quarter relative to the decline of 0.9 per cent recorded in the similar period in 2004. Notably, this growth is reflective of a normalisation in economic activity, in a context of the lagged effects of adverse weather conditions that negatively impacted the December 2004 quarter. For the review quarter, notable expansions were estimated for ***Miscellaneous Services***, ***Agriculture***, ***Forestry & Fishing***, ***Construction & Installation*** and ***Manufacturing***.

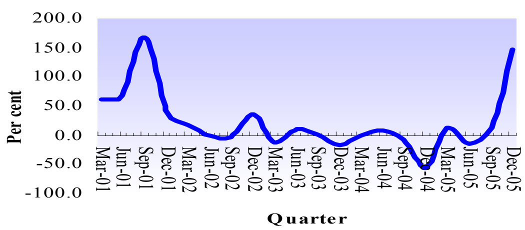
Estimated increases in ***Agriculture***, ***Forestry & Fishing*** represented normalization in economic activities, following the partial recovery from the impact of adverse weather conditions that affected the industry for over a year.

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



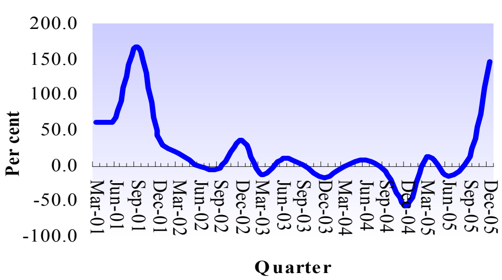
Source: Ministry of Agriculture, Bank of Jamaica Estimates

Figure 2.2
Trends in Export Agriculture
(12-Month change)



Source: STATIN, Ministry of Agriculture, Bank of Jamaica Estimates

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



Source: Jamaica Bauxite Institute Estimates

For the review quarter, there was a noted increase in both domestic and export crop production. With regard to domestic agriculture (see **Figure 2.1**) increases in plantains, legumes, potatoes and yams were partially offset by contractions in fruits, vegetables and condiments. For export crop production, there was an appreciable expansion in banana, cocoa and citrus production (see **Figure 2.2**). Over 50.0 per cent of these crops were destroyed in September 2004 due to Hurricane Ivan.

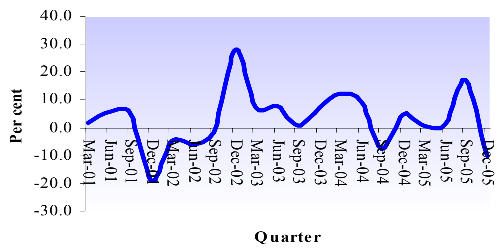
Mining & Quarrying is estimated to have declined during the December 2005 quarter. This outturn was unanticipated given the marginal growth in the comparable period of 2004, consequent on the lagged effects of adverse weather conditions. The decline within the sector was influenced by mechanical problems experienced by two processing plants within the review period. As a result, alumina production declined by 9.9 per cent and was partially offset by an extraordinary increase in crude bauxite production (see **Figure 2.3** and **2.4**) [10]. Correspondingly, the operating rate of the alumina companies declined to 86.3 per cent from 100.3 per cent, while the operating rate of the bauxite company increased to 91.3 per cent relative to 35.2 per cent in the comparable period of 2004.

With regard to ***Manufacturing,*** growth is estimated to have continued in the review quarter similar to that of the previous quarter (see **Figure 2.5**). This expansion mainly reflected the normalisation in the petroleum refining industry. With the petroleum refinery operating at full capacity throughout the quarter, O*ther Manufacturing* is estimated to have grown significantly, in contrast to the period of the closure of the plant in the December 2004 quarter. However, there were partially offsetting influences from a contraction in the non-metallic mineral industry, which was driven largely by a decline in cement production.

There was an estimated decline in *Food, Beverages and Tobacco* driven primarily by contractions in non-alcoholic beverages and tobacco & tobacco products, which was partially offset by increases in sugar, molasses & rum. The increase in the production of sugar, molasses &

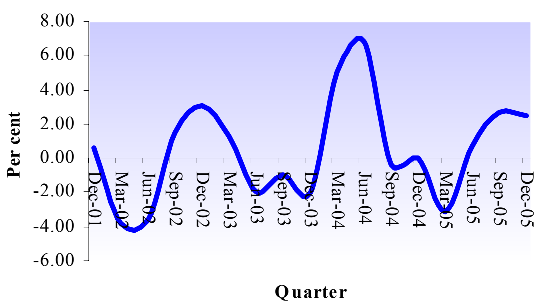
[10] Alumina production accounts for approximately 70 per cent of the value added of the mining industry.

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



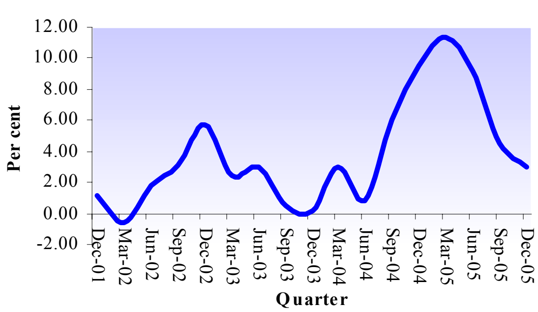
Source: Jamaica Bauxite Institute

Figure 2.5
Manufacturing: Growth Rate
(12-Month change)



Source: STATIN, Bank of Jamaica Estimates

Figure 2.6
Trends in Construction
(12-Month change)



Source: STATIN, Bank of Jamaica Estimates

rum is reflective of improvements in sugar production relative to the comparable period of 2004 when production was affected by a reduced cane harvest.

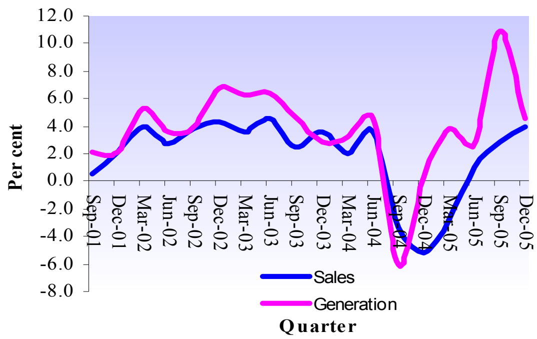
Construction & Installation continued on the growth path that started in June 2002. However, the recorded rate of growth for the quarter slowed relative to the 8.3 per cent outturn for the September 2005 quarter (see **Figure 2.6**). Construction activities were principally driven by the rehabilitation of infrastructure that was damaged during the active hurricane season, the construction of hotels and continued worked on the Highway 2000 project. In addition, installation activity was influenced by the expansion at one of the alumina refinery. However, residential construction is estimated to have declined in the quarter, influenced by a 57.0 per cent and 21.0 per cent contraction in housing completion and starts, respectively by the National Housing Trust.

The recovery in ***Electricity & Water*** recorded in the September quarter is estimated to have continued in the review quarter. Expansions in both electricity and water production contributed to the estimated growth of the sector. Electricity generation and sales grew by 4.6 per cent and 5.2 per cent, respectively (see **Figure 2.7**), while water production is estimated to have increased by 1.7 per cent, relative to the comparable period of 2004.

Transport, ***Storage & Communication***, is estimated to have expanded during the review quarter. The main impetus to growth within this sector emanated from the transport sub-sector. Both air and water transport improved during the quarter, with the primary contributor being air transport. In terms of air transport, visitor arrivals increased by 12.2 per cent offsetting the declines in air cargo movement. Growth in maritime activity, indicated by estimated expansions in domestic cargo movements and the number of ships calling at Jamaican ports, reflected increases of 0.2 per cent and 9.3 per cent, respectively, relative to the comparable period of 2004.

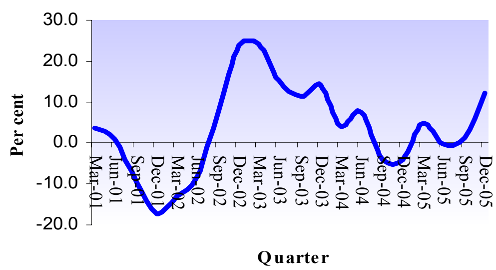
Miscellaneous Services is estimated to have improved significantly during the review quarter, reflecting a stronger than anticipated recovery from the 1.7 per cent decline recorded in the previous two quarters. This improvement was driven by the *Hotel, Restaurant & Clubs* sub-sector,

Figure 2.7
Electricity Generation & Sales
(12-Month change)



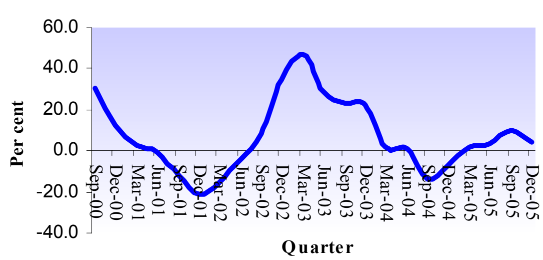
Source: JPS & Bank of Jamaica Estimates

Figure 2.8
Visitor Arrivals
(12-Month change)



Source: Jamaica Tourist Board; Bank of Jamaica

Figure 2.9
Cruise Passenger Arrivals
(12-Month change)



Source: Jamaica Tourist Board; Bank of Jamaica Estimates

which captures tourism activity. The growth in the sector is reflective of the spill over effects from adverse weather conditions in other tourist destinations, as well as, aggressive advertising by the local tourist sector. Additionally, there was an increase in airlift capacity to the Island. During the review quarter, visitor and cruise passenger arrivals expanded by 12.2 per cent and 4.5 per cent, respectively (see **Figure 2.8** and **Figure 2.9**). Consequently, an increase of 21.9 per cent in visitor expenditure is estimated relative to the corresponding quarter in the previous year.

Aggregate Demand

The estimated economic expansion reflected increases in ***Gross Fixed Capital Formation*** as well as, ***Net External Demand***. There was partially offsetting declines in ***Public Consumption***, while ***Private Consumption*** remained weak.

Indicators of ***Gross Fixed Capital Formation***, during the review quarter, suggested an expansion of investment spending relative to the comparable period of 2004. This expansion was inferred from an estimated increase of 6.2 per cent and 27.6 per cent in capital goods imports (see **Figure 2.10**) and Government capital expenditure, respectively, during the quarter relative to the corresponding period of 2004. The increase in investments was consistent with the expansion in construction as well as, the increase in business confidence during the quarter. The Business Confidence index rose to 106.5 up from 102.0 in the comparable period of 2004. This improvement reflected increase optimism regarding economic growth in the short- term.

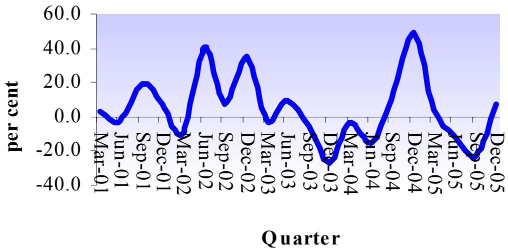
With regard to ***Net External Demand***, there was an estimated improvement during the review period relative to the similar period in 2004 (see **Figure 2.11**). The positive performance in net exports during the quarter was influenced by an estimated increase of 2.5 per cent in the export of goods and services, which was complemented by an approximate decline of 2.7 per cent in the imports of goods and services.

Growth in *Private Consumption* was weak for the review period. This was inferred from a real increase of 5.7 per cent in credit card receivables relative to the similar period of 2004 and a contraction in total imports of 6.1 per cent.

Figure 2.10

Trends in Capital Goods Imports

(12-Month change)

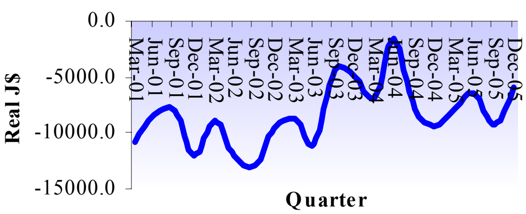


Source: STATIN, Bank of Jamaica Estimates

Figure 2.11

Trends in Net External Demand

(12-Month change)

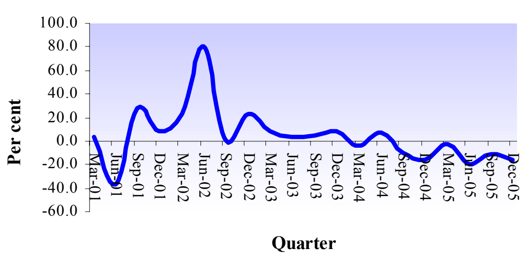


Source: MOF, Bank of Jamaica Estimates

Figure 2.12

Trends in Government's Wage Expenditure

(12-Month change)



Source: MOF, Bank of Jamaica Estimates

Additionally, a survey of consumer confidence conducted by the Jamaica Conference Board indicated a decline of 12.4 per cent in consumer confidence for the December 2005 quarter, relative to the comparable period of 2004. The survey also indicated that the consumer confidence index declined to its lowest level in more than a year due to unfavorable employment conditions.

Public Consumption declined during the December 2005 quarter relative to the comparable period of 2004. This contraction reflected an estimated 15.2 per cent decline in Government's expenditure on wages & salaries for the review period (see **Figure 2.12**) (See **Appendix A: Fiscal Developments**).

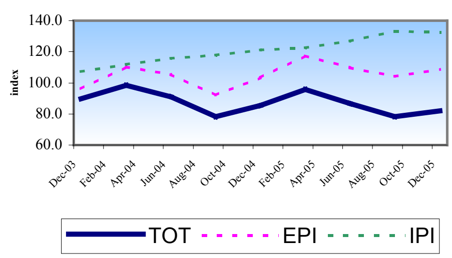
3. International Developments

A fall in the price of oil on the international market, in conjunction with an increase in aluminium prices, facilitated an improvement in Jamaica's terms of trade over the December 2005 quarter. This increase implied an improvement in the balance of payments and domestic inflation over the quarter.

Short-term interest rates in the United States of America (USA) climbed over the quarter, reflecting continued attempts by the monetary authorities to address negative inflation expectations. Notably, the yields on long-term US bonds rose less than proportionately, leading to concerns about the possibility of an inverted yield curve. There was also some monetary tightening in the economies of Jamaica's other main trading partners.

High demand for emerging market bonds, in the context of the positive performance of these economies, particularly in Latin America and Asia, persisted in the review quarter. Stability in the yields on these sovereign bonds led to a narrowing of interest rate spreads, relative to the yields on US Treasury Bonds. The interest rate spreads between the yields on Jamaican sovereign bonds and those in the USA also narrowed. The impact on the Jamaican economy of external monetary tightening was therefore reduced in the context of this fall in the interest rate spread.

Figure 3.1
Jamaica Terms of Trade Index
Dec 03 to Dec 05
(quarterly average)



Terms of Trade

Jamaica's terms of trade (TOT)[11] is estimated to have increased by 4.9 per cent during the December 2005 quarter, relative to the September 2005 quarter (see **Figure 3.1**). This improvement contrasts with the estimated contraction of 9.7 per cent in the September 2005 quarter. The rise in the TOT index for the review period reflected a 4.3 per cent increase in the export price index (EPI)[12], which was supported by a fall

[11] 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.
[12] The EPI is comprised of a weighted average of prices on exported alumina, coffee, cocoa, sugar, banana and a measure of the tourism product.

Figure 3.2
Monthly Average Price of Aluminium
Dec 03 to Dec 05

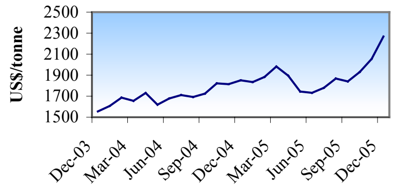
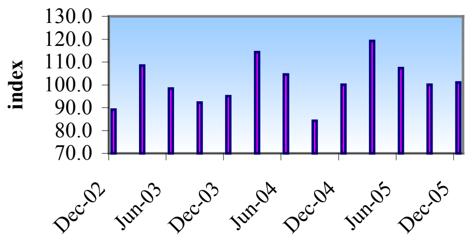


Figure 3.3
Tourism Price Index
Dec 02 to Dec 05
(quarterly average)



of 0.6 per cent in the import price index (IPI)[13]. The increase in the EPI over the review period was mainly attributable to a significant increase of 13.5 per cent in the price of aluminium on the London Metal Exchange (LME). The price of the metal averaged $2075.20 per tonne for the quarter, a record high (see **Figure 3.2**).

The increase in aluminium prices came in the wake of falling global inventories, which provoked fears that world supply would fall short of demand in 2006. For example, spot prices in the review quarter were influenced by the projected increase in the demand for aluminium from the USA, in the context of the expected reconstruction of some southern states following the 2005 hurricane season. Concurrently, it was anticipated that supply would contract with the expected closure of a number of smelting plants in North America and Europe, due to energy-related concerns. In addition, increased domestic demand by China contributed to a decline in aluminium exports from that country.

To a lesser extent, the EPI was positively influenced by an increase of 1.7 per cent in the tourism price index[14] (see **Figure 3.3**). This increase reversed the declining trend in the price of Jamaica's tourism product, in part attributable to strong demand at the start of the winter tourist season.

The fall in the IPI during the December 2005 quarter was largely attributable to a reduction in oil prices. This was supported by a fall in imported food inputs, partly offset by estimated increases in the prices of imported industrial raw materials and construction-related goods. The price of crude oil, as measured by the benchmark West Texas Intermediate (WTI) fell by 4.8 per cent to average US$60.00 per barrel for the quarter (see **Figure 3.4**).

The decline in crude oil prices during the December quarter resulted from a temporary reduction in the demand for crude oil, due to hurricane-related disruptions in the Gulf of Mexico, as well as uncharacteristically warm weather at the start of the winter season in the northern hemisphere. A report released by the International Energy Agency (IEA) in November

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

Figure 3.4
Monthly Average Crude Oil Prices
Dec 03 to Dec 05

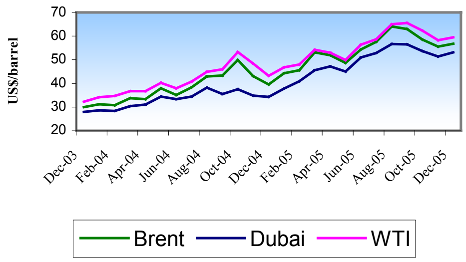


Figure 3.5
Quarterly Prices of Selected Commodities
Dec 03 to Dec 05

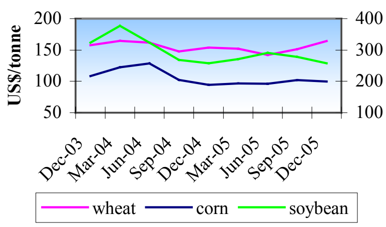
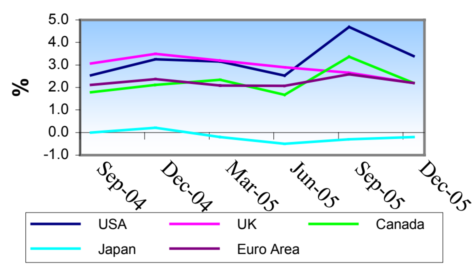


Figure 3.6
Annual pt to pt Inflation Rates
Sept 04 to Dec 05



2005 indicated a downward revision of world oil demand for 2005 by 70 000 barrels a day to 1.2 million barrels a day. Consistent with the IEA's estimates of lower oil demand, US crude oil inventories were 10.2 per cent and 8.3 per cent higher than the 5-year seasonal averages in October and November, respectively.

In terms of imported food inputs, the prices of corn and soybean fell by 2.0 per cent and 7.3 per cent, respectively. However, the price of wheat increased by 8.9 per cent during the quarter (see **Figure 3.5**). The fall in corn prices was influenced by strong yields in the USA for the 2005 crop. Renewed selling of corn by China, due to financial incentives to exporters, also augmented supply. Adverse weather conditions in Europe and Canada however affected the supply of wheat during the quarter.

International Capital Market Developments

Short-term interest rates

Short-term interest rates among Jamaica's main trading partners continued to rise during the December 2005 quarter (see **Table 3.1**). In the USA, the Federal Reserve (Fed) increased the target for the overnight funds rate by 25 basis points on two occasions, with rates ending the quarter at 4.25 per cent.

The Fed's decision to tighten monetary policy during the quarter was based on projected strong output growth, which had the potential to push up production costs, particularly in the labour market. In addition, there was some concern about the possible effect on inflation and inflation expectations of the increases in oil prices. GDP growth in the USA for the September 2005 quarter was 4.1 per cent, reflecting continued buoyancy in consumer spending, despite the impact of shocks to energy prices. However, inflation of 4.7 per cent at end September was high, relative to the level of short-term rates (see **Figure 3.6**).

The European Central Bank (ECB) and the Bank of Canada also tightened their monetary policy stance in the December 2005 quarter in response to inflationary pressures. The ECB raised its key interest rate[15]. by 25 basis points to 2.25 per cent, the first time in two and a half years. For the Bank of Canada, interest rates were adjusted upwards by 50 basis points to 3.25

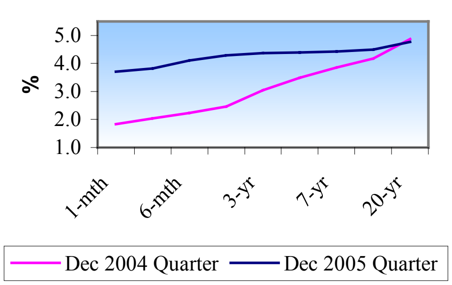
[15] The benchmark interest rate used by the ECB is the minimum bid rate on its main refinancing operation, a regular open market operation executed by the Euro system.

per cent. The central banks of the United Kingdom and Japan, however, left their key interest rates unchanged during the quarter

Table 3.1

Selected Key Interest Rates Sep-05 to Dec-05				
	Sep-05	Oct-05	Nov-05	Dec-05
USA [a]	3.75	3.75	4.00	4.25
Canada [b]	2.75	3.00	3.00	3.25
Euro zone [c]	2.00	2.00	2.00	2.25
UK [c]	4.50	4.50	4.50	4.50
Japan [d]	0.10	0.10	0.10	0.10

Figure 3.7
US Treasuries Yield Curve



Long-term interest rates

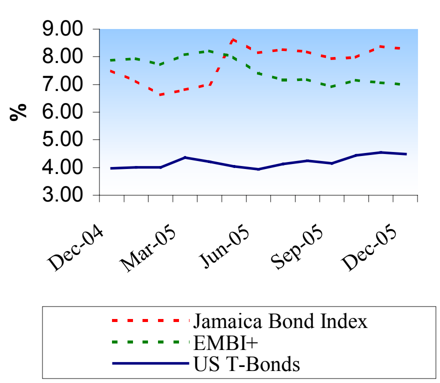
While money market rates moved in tandem with the increases in the Federal funds rate, interest rate adjustments in the capital market were smaller, reflecting a flattening of the yield curve for US Treasury Bonds (see **Figure 3.7**). The yields on the benchmark 10-year US Treasury Bonds increased by an average of 28 basis points for the December 2005 quarter, relative to an increase of 50 basis points on 1-year instruments. Yields on longer-term bonds rose more slowly given the expectation that long-term inflation would moderate.

Emerging market bonds

Emerging market bonds maintained their strong performance during the December 2005 quarter. The average spread between yields on emerging market sovereign bonds[16] and US Treasuries narrowed by 31 basis points to 2.52 per cent over the quarter. For example, the spreads on Brazilian sovereign bonds fell by 52 basis points to an average of 3.45 percent for the quarter. There was also an overall decline in the spreads on Jamaica's sovereign bonds.

The overall fall in emerging market spreads reflected the impact of the monetary adjustments among the major industrialised economies, in a context where the average yield on emerging market bonds remained constant at 7.10 per cent, relative to the same measure in the previous quarter. There was, however, a marginal increase of 9 basis points on the average yield on a select set of Jamaica's sovereign bonds[17] for the December quarter (see **Figure 3.8**).

Figure 3.8
Global Bond Yields
Dec 04 to Dec 05



The narrowing of spreads on emerging market debt was attributable to the strong performance of the economies, particularly those in Latin America and Asia. In addition, international investors' appetite for these assets grew in a context of strong global liquidity. Notably, the spreads on many key emerging market bonds during the review quarter were at their lowest levels since the 19th century.

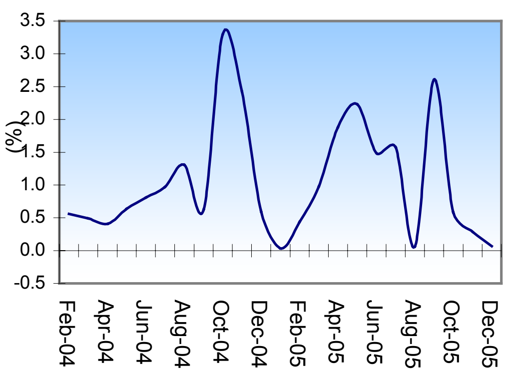
[16] The average yield as measured by the JP Morgan Emerging Market Bond Index (EMBI+).
[17] A composite index of the average yield on Jamaica's US$ sovereign bonds is calculated as a weighted average of the yield to maturity on the bonds based on their outstanding par values.

4. Inflation

Headline inflation for the December 2005 quarter was 0.9 per cent, 1.7 percentage points below the average of the past five years and the lowest December quarter outturn since 2000. The slower than expected movement in the Consumer Price Index (CPI) mainly reflected the impact of recovery in agricultural supplies and reversals in international oil prices. Core inflation was estimated at 1.0 per cent, relative to 1.4 per cent in the previous quarter and 1.7 per cent in the corresponding quarter of FY2004/05.

Inflation falls sharply in the quarter…

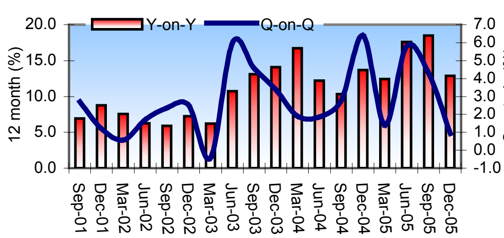
Figure 4.1
Monthly Inflation Rate



Headline inflation of 0.9 per cent for the December quarter was significantly lower than the average of 2.6 per cent for the previous five December quarters (see **Figure 4.1**). Simultaneously, the annual point-to-point inflation rate declined to 12.9 per cent at end-December from 19.0 per cent at end-September (see **Figure 4.2**). The moderation in inflation during the quarter primarily related to improvements in agricultural supplies and lower international oil prices.

Fiscal year-to-date inflation also reflected moderation. For the first nine months of the fiscal year 2005/06, inflation was 11.3 per cent relative to the 11.6 per cent for the comparable period in 2004/05. Inflation in 2005 was 12.9 per cent, 0.8 percentage points below the outturn in 2004.

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



The primary upward influences on inflation in the December quarter were lower meat supply and lagged energy price impulses on flour and baked products as well as some pass through of exchange rate changes on durables.

Core Inflation

Core inflation, as measured by the change in the trimmed mean index, slowed to 1.0 per cent for the review quarter, relative to 1.4 per cent for the previous quarter and 1.2 per cent for the corresponding quarter of FY2004/05. Monthly core inflation was 0.4 per cent in October, 0.3 per cent in November and 0.2 per cent in December. For the review quarter, core inflation was below the average of 1.3 per cent for the previous 5 December quarters. The slowdown in core inflation in the current quarter relative to the previous quarter reflected the monetary policy stance of the Central Bank.

Figure 4.3
Core Inflation per Quarter

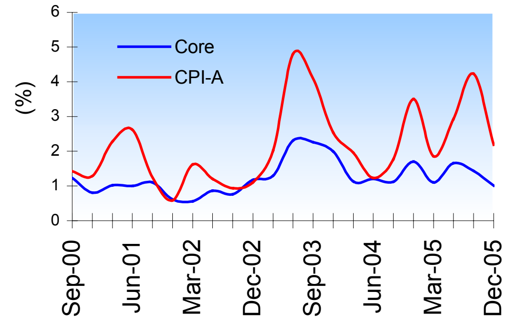


Figure 4.4
12- Mth % Change in Average Base Money & Annual Average Core

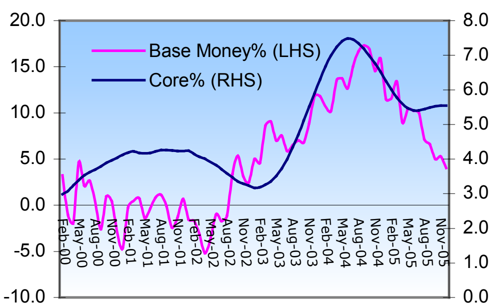
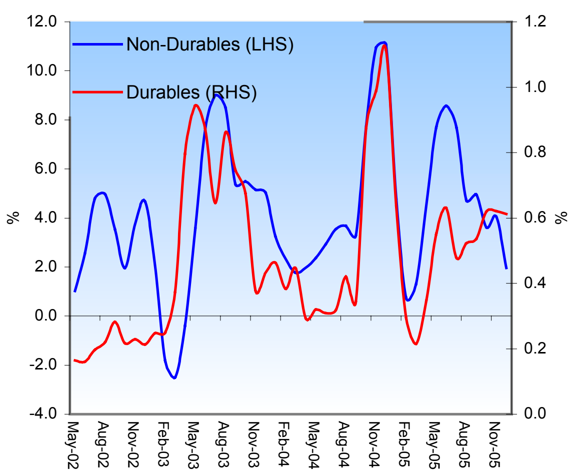


Figure 4.5
3 Mth changes in Durables and Non-Durables Indices



Monetary policy was relatively constrained over the year, as the Bank remained cautious regarding the possible effects of hurricane and oil related shocks on the economy. Consequently, the authorities sought to minimize the possible effects of core on headline inflation given the range of shocks anticipated.

Consistent with the Bank's stance, base money at the end of the September quarter rose by only 0.7 per cent following consecutive declines of an average 5.0 per cent in the two previous quarters. Further, the 12-month change in average base money continued its general downward trend since peaking at 17.3 per cent in the September 2004 quarter (see **Figure 4.3**).

The lower rate of core inflation in the December quarter, relative to the previous quarter, allowed the annual measure to moderate. The 12-month point-to-point core inflation rate at December 2005 was 5.2 per cent, relative to 6.1 per cent at the end of September 2005. The CPI minus agriculture (CPI-A) index increased 2.3 per cent during the quarter relative 4.3 per cent for the September quarter. This highlighted the wide-ranging impact of energy on the consumer price basket.

Non-Monetary Factors

The main non-monetary factors related to supply constraints for vegetables, and the lagged pass through of higher energy prices to meats and baked products.

Supply Conditions

Supply disruptions in the aftermath of the flood rains, associated with Hurricane Wilma, affected the vegetables and fruits component of the agricultural sub-groups. As a consequence, the Vegetables & Fruits sub-group increased 11.8 per cent. However, the index for Starchy foods fell by 18.7 per cent, the sharpest quarterly decline since 1993. These contrasting developments occurred due to the hardier nature of Starchy Foods, relative to the high moisture content of the vegetables, the characteristic planting areas of tubers and the time of the year. The hardier nature of the tubers rendered them less susceptible to the excess moisture, while the sloping lands on which they are predominantly planted enabled quicker run-off. The coincidence of the flooding and the traditional peak of the reaping season for tubers would have also meant greater availability of these crops.

Figure 4.6a
Food & Non-Food Inflation
(Quarterly)

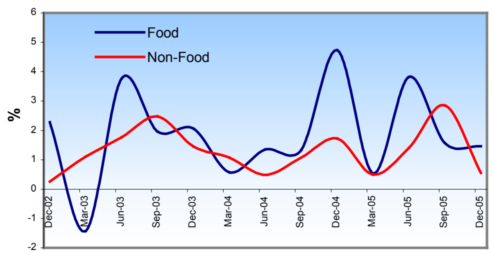


Figure 4.6b
Food & Non-Food Inflation
(Annual)

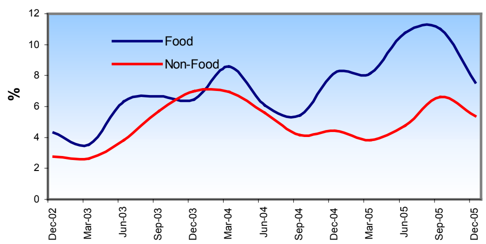
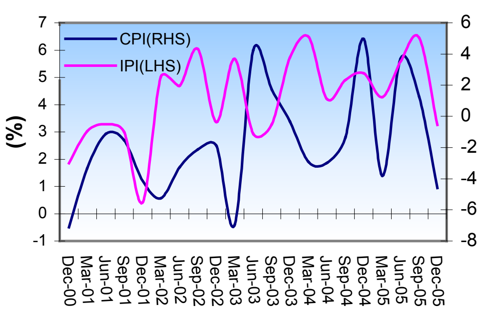


Figure 4.7
Import Price Index & Inflation (Quarterly)



The net impact from the agricultural sub-groups was the suppression of prices with a consequent fall in food inflation over the quarter. For the review period, inflation from food was 1.5 per cent relative to the 1.6 per cent in the previous quarter. Consistent with the developments, the non-food index rose by 0.6 per cent relative to 2.8 per cent in the September quarter. Reflective of lower inflationary impulses, on an annual basis, both food price inflation and non-food inflation were lower at 7.6 per cent and 5.3 per cent in the December quarter relative to 11.0 per cent and 6.6 per cent, respectively, in the September quarter (see **Figures 4.6a & b**).

The deceleration in non-agricultural inflation during the review quarter reflected the strong recovery of oil production in the aftermath of Hurricane Wilma and attendant impulses of lower oil prices and moderated impulses from earlier price shocks in the year.

Input Costs

In the September quarter, there was instability in the foreign exchange market, which intensified during the December quarter. The movements in the exchange rate leading up to the December quarter would have affected some imported prices. This was reflected in the upward movement in the index of durable goods prices, which have a high import content, relative to the index of non-durable goods, which has been trending down over the comparable period (see **Figure 4.5**).

The cost of imported goods, as measured by the Bank's import price index, declined by 0.6 per cent in the December quarter relative to an increase of 5.0 per cent in the September 2005 quarter (see **Figure 4.7**). This primarily reflected the fall in international oil prices (and a decline in the raw materials index) that led to moderated impact on the country's fuel import bill (see **International Developments).**

Owing to the favourable movements in international oil prices, utility costs declined over the quarter. This stemmed primarily from developments at the Jamaica Public Service Company (JPSCo) that lowered the fuel component of electric power sold to households. In particular, fuel charges declined by 3.9 per cent during the quarter. This was partially offset by sharp movements in the billing exchange rate, which depreciated by 3.9 per cent during the December quarter. As a consequence of the foregoing, electricity bills declined by approximately 0.7 per cent over the quarter. There were also reductions in water charges during the quarter consequent

Figure 4.9

Quarterly Chg in Furl index and WTI

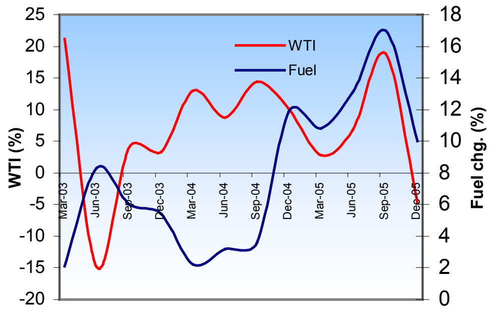


Figure 4.10
Quarterly Average Oil Prices (US) per barrel

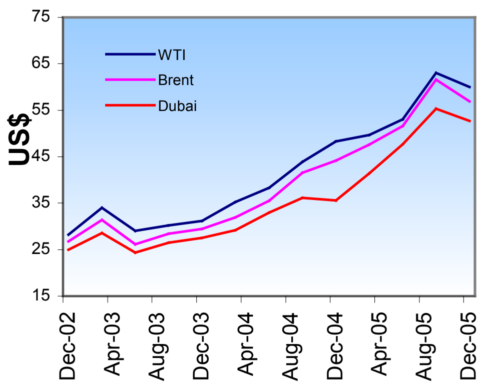
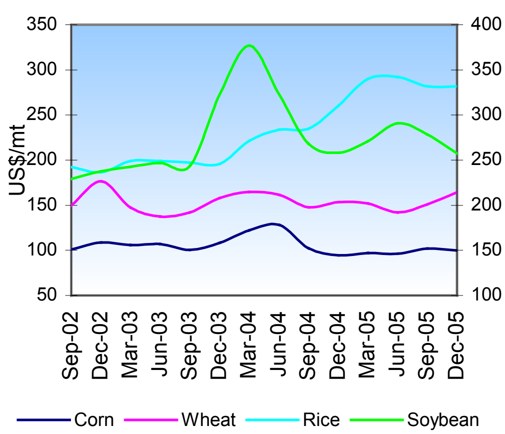


Figure 4.11
Grains Price Movements



on the importance of electricity in water distribution.

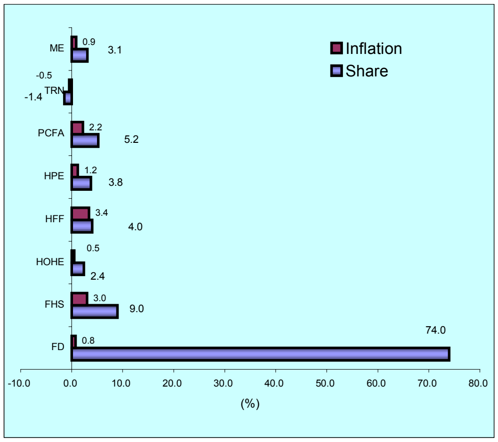
Component Contribution to Inflation

Food & Drink, Fuels & Other Household Supplies and **Personal Clothing, Footwear & Accessories** together accounted for approximately 88.0 per cent of the inflation in the review period (see **Figure 3.12**). The contribution of these groups was disproportionate to their combined weights in the basket of 68.1 per cent. These groups reflected the impact of a reduction in the supply of vegetables and the lagged pass though of higher energy costs to meats, as well as the effect of exchange rate depreciation on durables. Some of these inflationary impulses were also manifested in **Household Furnishings & Furniture. Miscellaneous Expenses** reflected lagged impulses from the earlier tax package**.** Some countervailing impetus emanated from the **Transportation** group largely as a result of lower international energy prices.

Within **Food & Drink**, Meat, Poultry & Fish, Vegetables & Fruits and Baked Products, Cereals & Breakfast Drinks contributed 45.4 per cent, 35.9 per cent and 16.8 per cent, respectively, to overall inflation. The contribution of Meat, Poultry & Fish mainly reflected higher beef and beef products prices as the disjuncture between demand and supply for the commodity continued to impact market conditions. In addition, higher energy costs also affected processing, storage and transportation costs associated with meats in general. The increases in Vegetables & Fruits mainly reflected the damage caused by the heavy rainfall brought by Hurricane Wilma in October. This situation was exacerbated by the seasonal demand impulses for condiments in the holiday season. Higher wheat prices and energy costs also affected the cost of flour and consequently baked products, with bread prices rising sharply during the quarter.

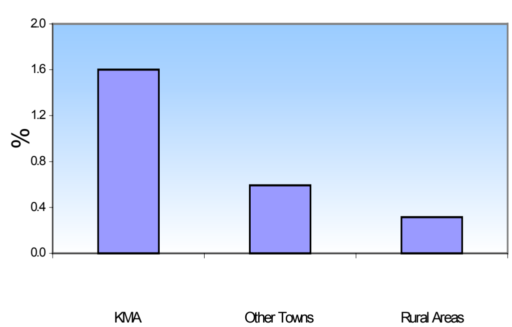
Fuels & Other Household Supplies were affected by exchange rate movements given the high import content of the Household Supplies sub-group. **Personal Clothing, Footwear & Accessories** and **Household Furnishings & Furniture** reflected the combination of seasonally higher demand and adverse exchange rate movements.

Figure 4.12
Inflation by Group



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

Figure 4.13
Regional Inflation (Dec 2005)



Miscellaneous Expenses chiefly reflected an increase in examination fees and the lagged impact of adjustments to the Special Consumption Tax (SCT) on cigarettes implemented as a part of Government's taxation package for the current fiscal year.

The decrease in **Transportation** primarily reflected significant declines in airfares and in the price of petrol. Airfares fell as a result of lower fuel costs and intensified competition from low cost new entrants on particular routes. The impact of lower international oil prices was also felt at the gas pumps with gasoline prices falling significantly during the quarter.

Regional Inflation

The strongest price impulse in the review quarter was observed in the Kingston Metropolitan Area (KMA), which was almost twice that of Rural Areas and Other Towns combined (see **Figure 4.13** and **Table 2B in Appendix C**). KMA recorded inflation of 1.6 per cent, while Other Towns and Rural Areas registered inflation of 0.6 per cent and 0.3 per cent, respectively. The disparity between regions largely emanated from a combination of impulses in **Food & Drink, Transportation** and **Household Furnishings & Furniture**. Within **Food & Drink**, there were sharper price declines in starchy foods prices outside the **KMA.** In **Transportation**, while there was no movement in the KMA index, those of the Other Towns and Rural Areas declined by 0.6 per cent and 1.2 per cent, respectively. This pattern arose from the occurrence of sharper declines in gasoline prices in the Other Towns and Rural Areas and little or no changes in taxi fares, while the changes in these two items in the KMA were offsetting. For **Household Furnishings & Furniture**, larger increases in furniture items in **KMA** led to the disparity in this index. For the fiscal year to date, inflation was more uniform with prices rising 11.4 per cent, 11.2 per cent and 11.1 per cent in the KMA, Rural Areas and Other Towns, respectively.

5. Economic Outlook and Monetary Policy Perspectives

Economic growth is expected to strengthen in the March 2006 quarter, driven by continued recovery in agriculture and enhanced growth in tourism. In the context of the recovery in agriculture, inflation for the March quarter is expected to remain moderate. However, countervailing influences could emanate from rising international oil prices and administrative price adjustments. A healthy NIR, projected increase in foreign inflows, and moderation in the 12-month inflation, are expected to underpin relative stability in the financial markets.

Table 5.1

Jamaica: Selected Economic Indicators

	ISP Target for FY05/06	*Projections for FY05/06*
Inflation (% change)	9.0 – 10.0	12.5 – 13.5
Base Money (% change)	15.4	6.0
NIR End Period (US$mn)	2000.0	2000.0
GDP (12-mth % chg.)	3.0 – 4.0	2.0 – 3.0

Short Term Outlook-March 2006 Quarter

Real Sector

Continued strong economic growth is expected in the March 2006 quarter. This outlook reflects continued recovery in several sectors compared to the adverse effect of Hurricane Ivan on output during the corresponding quarter of 2005. The buoyancy in the economy is also expected to arise from increased investments in public infrastructure, as well as in mining and tourism. This growth is expected to be underpinned by stable financial markets, improved business confidence and growth in private sector credit. Robust growth is expected in Jamaica's main trading partners in 2006, which in addition to more favourable export will facilitate an improvement in Jamaica's net external demand.

Both the goods producing and services sectors are expected to grow. Stronger growth is expected for the goods sector, which should be reflected mainly in ***Agriculture, Manufacturing*** and ***Construction***. A significant expansion is expected in ***Agriculture*** as the sector rebounds from the effects of adverse weather conditions that affected production in the last quarter of 2004. In particular, domestic agriculture is expected to show noticeable expansion facilitated by recent favourable weather, as well as efforts to rehabilitate the industry. Export agriculture is also anticipated to perform well mainly on the expectation of a robust sugar cane crop. Additionally, banana and coffee production should reflect a marked increase over the March 2005 quarter when these products were severely affected by adverse weather conditions.

Allied to the recovery in agriculture is a projected increase in the output of the sugar and the agro processing industries, which should enhance the growth of ***Manufacturing***. The production of alcoholic beverages is anticipated to increase as well, as the main producer in the sector expands its overseas market. The manufacturing sector should also expand on account of increased petroleum refining relative to the corresponding quarter of 2005. Production in the March 2005 quarter was curtailed by significant maintenance work at the refinery at that time.

Construction will continue to expand on the basis of several ongoing projects being undertaken including the construction of facilities for Cricket World Cup, housing construction in the inner-city and the North Coast and Highway 2000 projects. Expansion in construction activities will also be boosted by the construction of two hotels beginning in this quarter. The increased construction activities reflect the impact of investments in the tourism and mining sectors.

The services sector of the economy is expected to grow essentially due to projected expansion in ***Electricity & Water, Transport, Storage & Communication*** and ***Miscellaneous Services***. Growth in Electricity & Water is expected to reflect continued expansion in rural electricity service and greater industrial demand relative to March 2005 when economic activities were affected by Hurricane Ivan. The anticipated expansion in transportation services is predicated on increased air and land travel associated with projected expansion in the tourism sector.

Miscellaneous Services, which is largely comprised of the tourism industry, is anticipated to record a robust expansion in the March 2006 quarter. The prospects for the tourism sector are expected to be bolstered by the diversion of visitors away from competing destinations that were recently affected by adverse weather conditions. More critical to the growth, however, is the impact of recent marketing promotion that should help to enhance Jamaica's position as an attractive destination. Indications of a positive performance are supported by the recent additions of new hotels which should foster an increase in visitors from Europe. Further, increased airlift and hence competition among carriers has served to lower prices which could stimulate greater demand for travel to Jamaica.

Inflation

Inflation in the March 2006 quarter is anticipated to show continued moderation. The projected increase in production for the agricultural sector should serve to lower the price of agricultural items. As such, the indices of Starchy Food and Vegetables & Fruits should reflect significant moderation as prices for these items continue to normalize. Another possible respite or countervailing impulse could emanate from sales as merchants attempt to eliminate their post holiday stock in the quarter.

Upward influences on inflation in the March 2006 quarter are expected to emanate mainly from the increasing trend in international crude oil prices, administrative and seasonal price adjustments. The increase in the international price of crude oil and its derivatives are likely to result in higher prices for household and automotive fuels, as well as higher cost for utilities. Consequently, inflation will be reflected in *Fuels, Transportation* and *Housing & Other Housing Expenses*. Second round price effects, though smaller, are anticipated for other consumer goods and services.

A near 17 per cent increase in the National Minimum Wage will influence the wages of household help, gardeners and artisans which will be reflected in *Housing & Other Housing Expenses.* It is also expected that end-of-year adjustments in rental rates, insurance premiums and other related costs will influence inflationary conditions in the March 2006 quarter. As such, the indexes of Transportation, Rentals and Miscellaneous Services are expected to be affected.

The lagged effects of the depreciation in the exchange rate in the December quarter are also expected to influence inflation in the March 2006 quarter. However, the transmission of the exchange rate movement to prices will be moderated by the tight monetary policy.

With moderate inflation in the March quarter, the projection for inflation for FY2005/06 has been revised downwards to a range of 12.5 to 13.5 per cent, with the risks being fairly balanced. The Central Bank will continue to maintain relative stability in the foreign exchange market so as to lessen the impact of imported inflation in the economy.

Additionally, the continuation of the downward trend in annual core inflation is expected to continue.

Monetary Policy

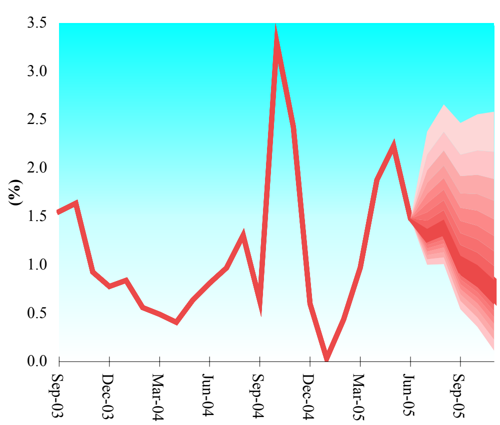
Trends in the December quarter have shown a general improvement in the macroeconomic environment as the economy continues to recover from adverse shocks experienced earlier in the year. This is evident in the growth in output, the attendant easing of domestic prices and relatively stable markets as foreign currency flows improved.

Monetary conditions in the March 2006 quarter will be influenced by the normalization in currency demand. As such, the monetary base, the Bank's operating target, is programmed to decline by 3.8 per cent relative to the 22.4 per cent increase in the December 2005 quarter. With a recovery in business confidence the Bank does not anticipate any major challenges in absorbing excess liquidity at current interest rates.

The Jamaica Conference Board's survey has revealed an improvement in business confidence, as firms reported more favourable expectations about economic growth in the year ahead. Also, the rating agency Standard & Poors has reaffirmed its 'B' rating on Jamaica's sovereign debt and has indicated that the outlook remained stable. This endorsement was influenced by the Government's ongoing commitment to fiscal discipline and debt reduction despite experiencing significant external shocks.

Against this background the Bank does not anticipate any major challenge in achieving its monetary targets for the quarter. However, there are concerns regarding the cost of fuel and energy. There are also concerns about the recent narrowing of the interest differential consequent on rising international interest rates. However, there are indications that the cycle of increase in the United States, may be coming to an end as concerns about inflation subsides. Locally, the concerns about the economy relate to the industrial relations, climate as well as crime.

Figure 5.1
Monthly Inflation Forecast



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

Appendices

A. Fiscal Developments: October to December 2005

Provisional data suggest that during the December 2005 quarter, the Central Government incurred a deficit of \$10 578.9 million or 1.6 per cent of GDP relative to a targeted deficit of \$657.4 million or 0.1 per cent of GDP. The deviation in the fiscal accounts was largely due to a significant shortfall in revenue. Expenditure during the quarter was also slightly above target. Consequently, the current deficit was 1.3 per cent of GDP relative to a targeted current surplus of 0.2 per cent. Concurrently, primary surplus was 2.2 per cent of GDP, below the targeted surplus of 3.7 per cent.

The deviation in total revenue during the quarter reflected lower than budgeted tax revenue, capital revenue and grants. The shortfall in tax revenue was due largely to lower than expected receipts from the General Consumption Tax (GCT) and Special Consumption Tax (SCT). Tax revenue was also adversely affected by higher refunds with respect to tax on interest income. Capital revenue was below target due to the delayed receipt of flows expected under the Education Reform Programme. Grants were also affected by the non-receipt of some flows programmed for the quarter.

Expenditure during the December quarter was 0.7 per cent higher than budget, reflecting higher recurrent expenditure, as spending on capital projects was below budget. The higher level of recurrent expenditure relative to target was largely accounted for by the payment of the Memorandum of Understanding (MOU) allowance to civil servants, reflected in wages & salaries.

Government financed the deficit from foreign resources, as local borrowing was to the extent of domestic amortisation. Foreign financing during the quarter consisted of the issue of a US\$250 million Eurobond in the international capital markets in October.

For the fiscal year to December, Government incurred a deficit of \$29 158.2 million or 4.5 per cent of GDP, relative to the targeted deficit of \$15 470.2 million or 2.4 per cent of GDP. This outturn reflected the significant deviation in revenue, which was partly offset by the containment of expenditure. The current deficit was 3.2 per cent of GDP, relative to the targeted deficit of 0.8 per cent of GDP. The revenue performance was also reflected in the primary surplus of 5.8 per cent of GDP, being below the targeted surplus of 8.1 per cent.

Total revenue flows for the first nine months of the fiscal year was 12.1 per cent below target but was 5.3 per cent above the corresponding period FY2004/05. All categories of revenue, with the exception of grants, exceeded their 2004 levels.

During the nine-month period, expenditure was 2.4 per cent below target, reflecting containment in capital expenditure. Relative to the corresponding period of the previous fiscal year, expenditure was 3.3 per cent higher, largely driven by a significant increase in capital expenditure.

Fiscal Performance
Comparative Analysis
J$ Million

	Q3	Budget Q3	Variance	Q1 - Q3	Budget Q1 - Q3	Variance
Revenue and Grants	**44018.4**	**53557.4**	**-9539.0**	**127485.6**	**145089.1**	**-17603.5**
Tax Revenue	38397.3	46034.9	-7637.6	113515.6	128470.3	-14954.8
Non-tax Revenue	3185.7	2602.1	583.6	8232.0	6822.9	1409.1
Bauxite Levy	810.1	771.1	39.0	2374.1	2253.3	120.8
Capital Revenue	1534.2	2735.3	-1201.1	3000.4	5034.6	-2034.2
Grants	91.1	1414.0	-1322.9	363.6	2508.0	-2144.4
Expenditure	**54597.3**	**54214.8**	**2051.9**	**156643.8**	**160559.3**	**-4113.1**
Recurrent Expenditure	51028.8	49359.4	1669.4	145021.4	145218.9	-197.5
Programmes	10328.1	9724.5	603.6	30885.1	30739.4	145.7
Wages & Salaries	16107.3	14845.2	1262.1	47046.5	46631.1	415.5
Interest	24593.4	24789.7	-196.3	67089.7	67848.5	-758.7
Capital Expenditure	3568.5	4855.4	-1286.9	11622.4	15340.4	-3718.0
Overall Balance	**-10578.9**	**-657.4**	**-9921.5**	**-29158.2**	**-15470.2**	**-13688.0**
Memo						
Current Balance	**-8544.6**	**1462.7**	**-10007.3**	**-20536.2**	**-5164.4**	**-15371.7**
Primary Balance	**14014.5**	**24132.3**	**-10117.8**	**37931.5**	**52378.2**	**-14446.7**

Performance Indicators
(percentages of GDP)

	Q3	Budget Q3	Q1 - Q3	Budget Q1 - Q3
BR	1.63	0.10	4.48	2.38
CB	-1.31	0.22	-3.15	-0.79
PB	2.15	3.71	5.83	8.05
IP	3.78	3.81	10.31	10.42
FSR	-1.24	-1.01	-1.23	-1.11

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

International Benchmarks

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

Source: Ministry of Finance and Planning

B. MONETARY POLICY DEVELOPMENTS

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

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

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

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

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

LIST OF SUMMARY TABLES

C. Summary Tables

1

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

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
October - December 2005

Groups and Sub-groups	Weight in CPI	Inflation (%)	Contribution
FOOD & DRINK	**0.5563**	**0.8**	**74.0**
- Meals Away From Home	0.0741	3.0	10.3
- Meat Poultry & Fish	0.1613	6.0	45.4
- Dairy Products Oils & Fats	0.0668	2.4	7.7
- Baked Products Cereals &Breakfast Drinks	0.0864	4.2	16.8
- Starchy Foods	0.0525	-18.7	-46.2
- Vegetables & Fruits	0.0650	11.8	35.9
- Other Food & Beverages	0.0502	1.7	4.0
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**3.0**	**9.0**
- Household Supplies	0.0482	2.1	4.7
- Fuels	0.0253	3.6	4.2
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**0.5**	**2.4**
- Rental	0.0209	1.7	1.7
- Other Housing Expenses	0.0577	0.2	0.7
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**3.4**	**4.0**
- Furniture	0.0068	6.1	1.9
- Furnishings	0.0215	2.0	2.0
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.2**	**3.8**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**2.2**	**5.2**
- Clothing Materials	0.0055	0.7	0.2
- Readymade Clothing & Accessories	0.0242	2.1	2.4
- Footwear	0.0159	2.9	2.1
- Making & Repairs	0.0051	1.3	0.3
TRANSPORTATION	**0.0644**	**-0.5**	**-1.4**
MISCELLANEOUS EXPENSES	**0.0785**	**0.9**	**3.1**
ALL GROUPS	**1.0000**	**0.9**	**100.0**

2B

REGIONAL INFLATION
Quarterly
October – December 2005

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**2.3**	**-0.1**	**-0.3**
- Meals Away From Home	3.0	2.9	3.0
- Meat Poultry & Fish	5.5	7.0	5.9
- Dairy Products Oils & Fats	2.3	2.9	2.4
- Baked Products Cereals &Breakfast Drinks	3.5	5.4	4.2
- Starchy Foods	-14.8	-28.4	-17.2
- Vegetables & Fruits	11.5	11.1	12.4
- Other Food & Beverages	0.7	2.7	2.3
FUELS & OTHER HOUSEHOLD SUPPLIES	**2.2**	**4.9**	**3.0**
- Household Supplies	1.2	3.4	2.5
- Fuels	2.7	5.8	3.3
HOUSING & OTHER HOUSING EXPENSES	**0.7**	**0.5**	**0.2**
- Rental	2.1	0.2	0.2
- Other Housing Expenses	0.2	0.5	0.2
HOUSEHOLD FURNISHINGS & FURNITURE	**4.9**	**2.5**	**2.6**
- Furniture	11.5	3.4	3.4
- Furnishings	1.8	2.1	2.1
HEALTHCARE & PERSONAL EXPENSES	**1.1**	**2.1**	**0.7**
PERSONAL CLOTHING FOOTWEAR & ACC.	**1.4**	**1.5**	**3.5**
- Clothing Materials	0.6	2.2	0.3
- Readymade Clothing & Accessories	2.9	1.5	1.8
- Footwear	0.2	1.3	6.7
- Making & Repairs	0.0	1.6	2.9
TRANSPORTATION	**0.0**	**-0.9**	**-1.2**
MISCELLANEOUS EXPENSES	**0.9**	**0.5**	**1.0**
ALL GROUPS	**1.6**	**0.6**	**0.3**

MISCELLANEOUS EXPENSES

3

BANK OF JAMAICA OPERATING TARGETS	Jun-04	Sept-04	Dec-04	Mar-05	Jun-05	Sept-05	Dec-05
Net International Reserves (US$)	**1 604.1**	**1 616.5**	**1 858.5**	**1 901.6**	**2 156.8**	**2 119.0**	**2 087.4**
Net International Reserves ($J)	**99 454.2**	**100 224.2**	**115 228.2**	**117 899.8**	**133 721.6**	**131 376.1**	**136 120.7**
- Assets	101 079.2	101 725.2	116 679.7	119 294.8	135 116.6	139 063.5	141 443.1
- Liabilities	- 1 625.0	- 1 501.0	-1 451.4	-1395.0	-1 395.0	-7 687.4	-5 322.4
Net Domestic Assets	**-62 841.2**	**-61 833.3**	**-70 172.6**	**-76 253.0**	**-93 641.6**	**-91 001.9**	**-86 703.0**
-Net Claims on the Public Sector	89 291.8	97 291.3	91 476.2	96 076.3	99 507.6	103 491.4	96 607.0
- Net Credit to Banks	-13 127.9	-14 713.0	-15 078.8	-12 629.7	-9 784.6	-10 289.3	-10 871.7
- Open Market Operations	-123 222.1	-127 629.3	-130 692.1	-143 854.8	-167 485.1	-168 108.2	-149 806.5
- Other	-15 783.0	-16 782.3	-15 877.9	-15 844.8	-15 879.5	-16 095.8	-22 631.8
Monetary Base	**36 613.0**	**38 390.9**	**45 055.6**	**41 646.8**	**40 080.0**	**40 374.2**	**49 417.7**
- Currency Issue *	24 597.4	26 215.9	32 398.1	28 674.9	26 995.0	27 401.5	35 644.5
- Cash Reserve	11 936.2	12 042.0	12 316.2	12 696.2	12 957.2	12 937.6	13 125.8
- Current Account	79.4	133.0	341.3	275.7	127.8	35.1	647.4
% change Monetary Base (F-Y-T-D)	**1.2**	**6.1**	**24.5**	**15.1**	**-3.8**	**-3.1**	**18.7**

** Excludes BOJ's teller cash*

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/2004						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March	44 942.9	57 124.2	124 892.6	190 784.0	160 403.2	226 294.7
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December	55 258.0	67 724.6	141 539.8	211 468.2	182 029.6	251 723.8
March	52 605.9	62 309.4	139 480.6	209 583.2	179 769.4	249 872.0
2005/2006						
June [r]	52 942.5	62 310.9	142 111.3	212 032.6	185 090.2	255 011.5
September	53 089.8	63 212.3	143 430.0	216 480.9	188 253.9	261 304.7
December [p]	65 036.9	75 200.3	157 712.0	230 634.4	203 116.1	276 038.5

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

5

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

	Mar 04	Jun-04	Sep-04	Dec-04 r	Mar-05 r	Jun-05 r	Sep-05	Dec-05
M2J	**1 802.3**	**3 402.1**	**2 120.4**	**11 124.8**	**-2 059.2**	**2 630.8**	**1 318.8**	**10 779.2**
Currency	-2 550.7	524.6	1 041.0	4 483.3	-3 108.7	-574.0	1 119.6	5 683.6
Demand Deposits	2 272.8	1 028.8	1 422.1	1 815.1	456.8	910.4	-972.3	4 404.5
Savings Deposits	804.8	2 516.2	696.9	2 739.5	-105.1	1 579.0	111.6	1 211.3
Time Deposits	1 275.4	-667.5	-1 039.6	2 086.9	697.8	715.4	1 059.9	-520.2
OTHER DEPOSITS	**2 213.9**	**1 961.3**	**1 386.9**	**1 631.0**	**-201.1**	**2 690.0**	**1 844.9**	**705.6**
TOTAL (M3J)	**4 016.2**	**5 363.4**	**3 507.3**	**12 755.8**	**-2 260.3**	**5 320.8**	**3 163.7**	**11 484.8**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Mar 04	Jun-04	Sep-04	Dec-04 r	Mar-05 r	Jun-05 r	Sep-05	Dec-05
N.I.R. of B.O.J.	**24 584.1**	**2 158.3**	**775.1**	**15 100.7**	**2 666.0**	**15 788.6**	**-2 277.0**	**-432.1**
M&LTFL of B.O.J	**0.0**	**0.0**	**21.7**	**12.0**	**0.0**	**11.7**	**0.0**	**44.7**
Banking System Credit	**-17 447.3**	**22 552.0**	**6 749.4**	**-10 580.7**	**913.5**	**18 620.4**	**5 566.3**	**3621.2**
Public Sector	-22 169.1	21246.0	4 260.7	-11 009.8	-1 164.3	15 559.3	3 864.9	3 460.7
Private Sector	4 721.8	1 306.0	2 488.7	429.1	2 077.8	3061.1	1 701.4	160.5
Open Market Operations	**-26 312.3**	**-14 940.4**	**-4 407.2**	**-3 062.8**	**-13 162.8**	**-23 658.2**	**-595.1**	**6 973.1**
Other	**23 191.7**	**-4 418.2**	**368.3**	**11 286.6**	**7 323.0**	**-5 441.7**	**469.5**	**1 277.9**
TOTAL	**4 016.2**	**5 363.4**	**3 507.3**	**12 755.8**	**- 2 260.3**	**5 320.8**	**3 163.7**	**11 484.8**
Memo:								
Foreign Currency Deposits (Private Sector)	5 864.3	-890.1	4 257.6	633.6	210.1	-181.3	3 129.6	-1 620.4
Foreign Currency Loans (Private Sector)	1 199.1	339.9	608.9	3 367.5	1 594.9	-2 901.0	3 389.6	-267.4

preliminary

r-revised

6A

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

	Fixed Deposits * 3-6 months	Fixed Deposits * 6-12 months	Savings Deposits (Average) r	Demand Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
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	22.0	n.a.	n.a.	12.42

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

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	*6-month*	*9-month*	*12-month*
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	
2005/2006				
June	12.85	12.88		
September	12.96	13.15		
December	13.34	13.55		

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BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

Tenor of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
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

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
October – December 2005

Maturity Date		Amount J$M	Applicable Interest Rate b/
4 Oct	11.625% US$ Indexed Bond 2005	US$ 46.7	11.625
4 Oct	9.75% FR US$ Bond 2005	US$7.4	9.75
18 Oct	Inv. Deb. 2005 Ser. "Ag"	9.5	17.00
11 Nov	FR LRS 2005 B	250.0	25.00
14 Nov	11.25% U$ Bd. 2005A	US$10.0	11.25
15 Nov	VR LRS 2006/2007 A Tr. D	222.4	14.18
15 Nov	14.25% FR LRS 2005	182.7	14.25
16 Nov	VR Inv. Bd. 2005/2016 Ser. "D"	3.2	14.63
23 Nov	US$ Indexed Bond 2005	US$19.2	11.25
25 Nov	GOJ Inv. Deb. 2006 Ser. "Ap"	5.9	16.575
29 Nov	FR LRS 2005 AL	400.0	13.875
Dec 2	VR LRS 2003-2009 Trs. B	200.0	15.18
14 Dec	17.50% LRS 2005	205.5	17.50
15 Dec	FR US$ Bond	US$14.3	7.00
16 Dec	11.875% US$ Bond 2003-2006 Tr. 1	US$33.3	11.875
28 Dec	VR LRS 2004/2008 Trs. D	116.1	14.65
30 Dec	VR LRS 99/2008 (Q)	2.4	14.88
30 Dec	FR US$ Bond 2005	US$83.9	9.00
31 Dec	VR 2001/2006 Tr. E	13.1	13.88

Notes:

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

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

c/ FR – Fixed Rate

d/VR-Variable Rate

Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
October – December 2005

Issue Date	Stock Name	Features	Amount Raised J$M
4 – 6 October	VR Investment Bond 2011/2012 Series "T"	Tenor of 72 months. Coupon rate fixed at 12.96% for first three months. Thereafter, quarterly interest payments of 1.5 percentage points above the applicable three-month Treasury Bill rate	5,550.71
14 – 21 October	FR 13.65% Investment Debenture 2005 Series "Av"	Tenor of 36 months. Interest rate fixed at 13.65%. Interest paid quarterly. Average yield of 14.48%	2,255.04
31 October – 2 November	VR Investment Bond 2010/2011 Series "U"	Tenor of 54 months. Coupon rate fixed at 12.96% for first three months. Thereafter quarterly interest payments of 1.5 percentage points above the applicable three-month Treasury Bill rate	2,748.03
15 – 17 November	VR Investment Bond 2008/2009 Series "V"	Tenor of 29 months. Coupon rate fixed at 12.95% for first two months. Thereafter, quarterly interest payments of 1.5 percentage points above the applicable three-month Treasury bill rate.	2,626.26
25 – 29 November	VR Investment Bond 2008/2009 Series "W"	Tenor of 30 months. Coupon rate fixed at 12.98% for first three months. Thereafter, quarterly interest payments of 1.5 percentage points above the applicable three-month Treasury bill rate.	2,85.12
7 – 9 December	VR LRS 2017/2018 F	Tenor of 12 1/4 years. Coupon rate fixed at 13.15% for first six months. Thereafter, quarterly interest payments of 1.65 percentage points above the applicable three-moths weighted average Treasury bill rate.	874.18
14 – 16 December	FR 13.75% Registered Bond 2007 Series "G"	Tenor of 18 months. Coupon rate fixed at 13.75% for first three moths. Interest paid quarterly.	300.0
20 – 21 December	FR 8.125% US-denominated Bond 2010	Tenor of 4 ½ years. Coupon rate fixed at 8.125%. Interest paid semi-annually.	US$96.52

Source: Debt Management Unit, Ministry of Finance & Planning

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other Goods	Total Exports
2002/2003	**99.9**	**615.6**	**64.5**	**17.7**	**74.4**	**227.8**	**213.7**	**1 313.6**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March	21.7	162.6	25.9	4.7	18.8	56.9	43.6	334.2
2003/2004 r	**92.3**	**726.0**	**82.9**	**18.6**	**65.7**	**250.9**	**231.0**	**1 467.4**
June	24.1	166.0	28.9	5.0	17.6	52.4	52.0	346.0
September	23.1	183.2	10.4	4.4	18.5	66.0	60.2	365.8
December	21.0	176.7	1.1	4.6	12.6	60.4	63.2	339.6
March	24.1	200.1	42.5	4.6	17.0	72.1	55.6	416.0
2004/2005 r	**82.1**	**822.1**	**87.0**	**8.2**	**74.2**	**272.6**	**216.3**	**1 562.5**
June	25.4	202.8	47.9	4.3	19.2	77.3	55.8	432.7
September	22.3	173.8	7.7	3.9	20.3	59.9	66.7	354.6
December	8.6	237.8	0.0	0.0	19.6	74.1	58.2	398.3
March r	25.8	207.7	31.4	0.0	15.1	61.3	35.6	376.9
2005/2006								
June r	22.6	240.3	41.5	2.1	17.2	61.9	47.1	432.7
September p	24.8	227.6	3.8	1.3	17.1	93.3	52.2	420.1

r-revised

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PRIVATE SECTOR QUARTERLY CURRENT GROSS TRANSFERS (INCLUDING REMITTANCE INFLOWS) (US$MN)	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Total Remit. Inflows	Other Current Transfers	Total
2002/2003	**293.0**	**622.8**	**0.8**	**252.6**	**1 169.2**	**105.4**	**1 274.6**
June	73.2	157.6	0.1	58.8	289.7	23.1	312.8
September	74.0	150.9	0.2	65.6	290.7	23.1	313.8
December	66.3	160.2	0.2	65.8	292.5	23.2	315.7
March	79.5	154.1	0.3	62.4	296.3	36.0	332.3
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**148.2**	**1 476.0**
June	58.8	170.1	0.3	63.2	292.4	36.0	328.4
September	74.5	169.4	0.3	71.6	315.8	36.0	351.8
December	100.8	183.4	0.3	80.4	364.9	36.0	400.9
March	96.6	174.9	0.3	82.9	354.7	40.2	394.9
2004/2005	**388.4**	**789.6**	**1.2**	**330.8**	**1 510.0**	**330.0**	**1 840.0**
June	96.9	185.6	0.3	83.3	366.1	40.2	406.3
September	70.3	186.4	0.3	84.8	341.8	48.3	390.1
December	97.4	216.5	0.3	88.9	403.1	134.1	537.2
March	123.8	201.1	0.3	73.8	399.0	107.4	506.4
2004/2006							
June	104.0	220.1	0.3	80.1	404.5	47.0	451.5
September	119.9	222.9	0.3	77.7	420.8	47.0	467.8
December	114.9	231.2	0.3	80.2	426.6	47.0	473.6

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

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

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

	Mar-04[r]	Jun-04[r]	Sep-04[r]	Dec-04	Mar-05[r]	Jun-05[p]	Sep-05[p]
1. Current Account	**-34.4**	**-57.0**	**-226.8**	**-191.2**	**-87.1**	**-245.0**	**-234.3**
A. Goods Balance	**-421.9**	**-394.0**	**-531.1**	**-597.5**	**-590.0**	**-596.0**	**-623.9**
Exports (f.o.b.)	416.0	432.7	354.6	398.3	376.9	432.7	420.1
Imports (f.o.b.)	837.9	826.7	885.7	995.8	966.9	1 028.7	1 044.0
B. Services Balance	**202.2**	**160.1**	**100.7**	**108.7**	**257.2**	**166.0**	**133.3**
Transportation	-14.1	-29.1	-48.6	-58.5	-26.2	-55.3	-63.9
Travel	325.2	297.7	252.2	276.4	387.4	326.2	298.0
Other Services	-108.9	-108.5	-102.9	-109.2	-104.0	-104.9	-100.8
Goods & Services Balance	**-219.7**	**-233.9**	**-430.4**	**-488.9**	**-332.8**	**-430.0**	**-490.6**
C. Income	**-148.3**	**-153.0**	**-131.5**	**-149.9**	**-149.2**	**-178.0**	**-132.3**
Compensation of Employees	4.8	11.1	32.0	36.6	6.7	9.8	33.6
Investment Income	-153.1	-164.1	-163.5	-186.5	-155.9	-187.8	-165.9
D. Current Transfers	**333.6**	**329.9**	**335.1**	**447.5**	**394.9**	**363.0**	**388.6**
General Government	27.5	27.0	40.8	64.6	39.2	28.8	27.0
Other Sectors	306.1	302.9	294.3	382.9	355.7	363.0	361.6
2. Capital & Financial Account	**34.4**	**57.0**	**226.8**	**191.2**	**87.1**	**245.0**	**234.3**
A. Capital Account	**-0.4**	**0.8**	**0.2**	**1.6**	**-3.0**	**-2.8**	**-3.1**
Capital Transfers	-0.4	0.8	0.2	1.6	-3.0	-2.8	-3.1
General Government	3.4	3.5	3.4	3.5	0.1	0.2	0.0
Other Sectors	-3.8	-2.7	-3.2	-1.9	-3.1	-3.0	-3.1
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	**34.8**	**56.2**	**226.6**	**189.6**	**90.1**	**247.8**	**237.4**
Official Investment	253.5	73.9	32.9	118.9	-48.5	2.2	143.1
Private Investment (including net errors & omissions)	185.0	17.7	206.2	312.7	181.7	500.8	56.5
Reserves	-403.7	-35.4	-12.5	-242.0	-43.1	-255.2	37.8

r-revised

p-provisional

13

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

	Gross Foreign Assets (US$MN)	Gross Foreign Liabilities (US$MN)	International Reserves (Net) (US$MN)	*Weeks of Imports* Goods	Goods & Services
2001/2002					
June	1 612.5	71.9	1 540.5	27.3	18.6
September	1 605.9	69.2	1 536.7	27.1	18.6
December	1 903.3	62.6	1 840.7	33.2	22.5
March	2 000.3	58.7	1 941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1 782.3	31.2	20.6
September	1738.6	51.3	1 687.3	29.5	19.5
December	1643.1	46.1	1 597.0	27.9	18.4
March	1382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1901.6	27.5	18.8
2004/2005					
June	2 179.3	22.5	2 156.8	28.1	19.5
September	2 243.0	124.0	2 119.0	27.0	19.1
December	2 169.0	81.6	2 087.4	27.0	19.0

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

	US$	Can$	GB£
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52
September	62.89	53.61	110.02
December	64.58	54.95	110.40

15

STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

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

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

16

PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
2001/2002				
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5.	4 350.0	80 516.1.	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.5	3 750.0	210 300.0.	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	220 529.2	4 050.0	231 749.8	167 485.1
September	220 059.0	3 800.0	244 195.7	168 108.2
December	n.a	3 500.0	n.a	149 806.5

n.a: Not Available

17

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

** Exports*

18

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES, AT CONSTANT (1996) PRICES YEAR OVER YEAR CHANGES: SEPTEMBER 2003 - SEPTEMBER 2005

	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05
Total Gross Domestic Product	1.2	1.9	2.3	2.5	-0.1	-0.9	0.1	0.4	2.9
Agriculture, Forestry & Fishing	5.2	11.3	2.1	-0.6	-8.1	-28.6	-26.1	-16.4	1.3
Export Agriculture	-11.0	4.7	28.5	10.6	-1.2	-52.0	-53.0	-46.8	-29.8
Domestic Agriculture, Livestock, Forestry & Fishing	9.4	13.0	-3.6	-2.7	-9.6	-22.9	-18.4	-10.0	8.6
Mining & Quarrying	1.1	4.1	10.2	7.9	-7.8	0.1	0.8	0.2	15.8
Manufacturing	-0.8	-1.9	5.5	6.8	0.0	-0.3	-3.3	0.9	1.9
Food, Beverages & Tobacco	-4.2	-4.0	7.1	5.6	0.8	3.3	-3.7	0.8	-3.4
Other Manufacturing	3.5	0.6	3.5	8.4	-0.9	-4.6	-2.8	0.9	8.2
Electricity & Water	5.4	2.8	3.4	2.8	-6.0	-0.4	0.4	1.7	10.4
Construction & Installation	0.5	-0.3	2.9	1.1	6.1	9.8	11.2	8.6	8.2
Distributive Trade	1.0	1.6	1.5	1.2	1.7	0.9	1.9	1.1	0.8
Transport, Storage & Communication	0.9	1.6	1.4	3.4	-0.4	-1.0	2.0	-0.5	0.5
Finance & Insurance Services	1.4	0.7	-1.6	-2.5	0.3	1.0	-0.5	0.1	0.2
Real Estate & Business Services	2.1	1.0	2.2	2.1	2.5	1.6	1.6	2.2	2.0
Producers of Government Services	0.4	0.8	0.1	0.2	0.1	0.5	0.6	0.4	0.5
Miscellaneous Services Household and Private Non-Profit Institutions	3.9	5.6	5.8	8.6	2.2	-0.1	5.5	-0.9	-2.3
Hotels, Restaurants & Clubs	4.4	6.1	6.8	10.6	2.1	-0.8	6.9	-1.7	-3.6
Less Imputed Bank Service Charge	3.1	1.0	8.2	6.6	2.2	3.5	2.1	-1.1	-3.7

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
Assets	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**
Foreign	72 134.5	97 232.2	99 458.8	101 367.1	113 727.7	118 206.1	134 085.9	140 935.2	139 675.7
Current Account & Foreign Currency Balances	6 091.0	6 881.8	9 162.7	9 824.6	12 036.4	14 005.1	16 263.7	17 681.6	14 090.9
Time Deposits & Securities	60 805.0	84 931.4	84 922.5	86 121.4	96 047.5	98 606.1	108 978.7	120 550.1	122 805.6
Holdings of Special Drawing Rights	3.2	4.8	23.8	6.0	4.4	10.5	2.6	25.2	0.4
Other	5 235.3	5 414.2	5 349.8	5 415.1	5 639.4	5 584.4	8 840.9	2 678.3	2 778.8
Local	93 183.7	89 579.3	91 559.6	95 521.4	96 891.3	104 193.6	106 106.5	107 991.2	100 660.5
Public Sector Securities	78 147.1	77 836.0	76 989.0	85 125.6	85 131.1	85 139.9	85 125.9	90 034.8	81 357.5
Other Assets	15 036.6	11 743.3	14 570.6	10 395.8	11 760.2	19 053.7	20 980.6	17 956.4	19 303.0
Liabilities	**165 318.2**	**186 811.5**	**191 018.4**	**196 888.5**	**210 619.0**	**222 399.7**	**240 192.4**	**248 926.4**	**240 336.2**
Foreign	479.3	459.8	427.0	401.4	424.3	370.7	395.2	342.2	346.6
Local	164 839.0	186 351.7	190 591.4	196 487.1	210 194.7	222 028.9	239 797.2	248 584.2	239 989.8
Currency in Circulation	29 467.0	24 978.0	24 634.4	26 261.3	32 438.3	28 711.7	27 049.7	27 445.9	35 682.7
Deposits	112 076.8	146 088.2	155 259.4	159 435.8	165 535.6	179 817.5	201 790.1	207259.0	187 435.9
Bankers	25 659.9	26 197.7	26 499.4	28 278.6	29 186.6	27 086.5	24 396.5	24 819.5	26 226.8
Government	1 235.2	5 045.7	3 098.7	656.5	3 482.6	4 739.6	6 774.8	4 637.5	3 308.4
Open Market Operations	81 969.4	108 281.7	123 222.1	127 629.3	130 692.1	143 854.8	167 485.1	168 108.2	149 806.5
Other	3 212.3	6 563.1	2 439.2	2 871.4	2 174.3	4 136.6	3 133.7	9 693.8	8 094.2
Allocation of Special Drawing Rights	3 203.0	3 203.0	3 573.6	3 573.6	3 573.6	3 573.6	3 792.7	3 792.6	3 792.7
Capital & Reserves	4.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	990.3	1 270.4	2 311.1	2 283.6	2 285.9	2 282.3	2 983.3	2 961.6	2 866.2
Other Liabilities	19 097.8	10 788.1	4 788.9	4 908.8	6 337.3	7 619.9	4 157.4	7 101.1	10 188.1

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05[P]
Assets	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 378.6**	**343 452.4**	**346 352.9**	**356 544.8**	**367 100.7**
Cash	6 281.0	4 335.8	3 478.0	4 055.5	5 754.4	5 139.9	4 034.0	3 320.8	6 014.4
Balances with BOJ	40 249.2	50 545.4	53 281.4	52 877.8	55 896.7	59 776.1	61 415.5	62 486.9	57 747.9
Foreign Assets	59 938.9	62 394.6	61 318.4	71 803.7	73 289.8	67 327.2	61 079.6	71 290.6	75 555.3
Loans & Advances	99 150.0	102 504.2	106 169.9	108 989.0	113 368.8	118 444.9	125 513.2	124 842.3	132 290.9
Private Sector	71 638.4	75 699.2	77451.2	80 687.3	83 558.3	88 548.4	88 829.5	93 714.5	99 725.9
Public Sector	27 511.6	26 805.0	28 718.7	28 301.7	29 810.5	29 896.5	36 683.7	31 127.8	32 565.0
Public Sector Securities	74 852.1	66 686.3	65 707.7	62 695.7	56 455.4	52 434.0	57 644.9	56 515.4	56 118.0
Cheques in the Process of Collection	2 584.2	6 310.9	2 658.7	5 381.2	4 040.6	6 330.5	3 484.2	4 860.9	3 533.3
Other Assets	30 461.2	38 933.3	35 107.7	35 624.2	35 572.9	33 999.8	33 181.5	33 227.9	35 840.9
Liabilities	**313 516.6**	**331 710.5**	**327 721.8**	**341 427.1**	**344 378.6**	**343 452.4**	**346 352.9**	**356 544.8**	**367 100.7**
	198 774.8		214 596.2	223 188.9	228 190.5	234 117.2	233 407.8	240 794.3	246 376.4
Deposits	122 976.1	216 777.3	132 670.0	135 475.1	139 515.4 88	145 325.4	143 720.0	144 734.2	149 006.8
Local Currency	75 798.7	134 730.5	81 926.2	87 713.8	675.1	88 791.9	89 687.8	96 060.1	97 369.6
Foreign Currency		82 046.8							
Foreign Liabilities	15 900.5	15 860.8	18 655.6	22 932.1	26 374.9	28 856.4	31 241.4	30 496.4	34 997.9
Discounts & Advances from BOJ	167.7	276.7	1 607.3	199.6	229.9	117.5	144.1	361.6	234.5
Loans/Advances from Other Institutions	9 431.7	7 741.2	7 805.5	7 806.5	7 762.3	5 214.4	5 042.9	5 059.6	5 095.8
Cheques in the Process of Payment	2 112.4	3 279.7	2 218.9	3 172.3	2 498.5	3 056.4	2 828.2	2 616.4	2 660.9
Other Liabilities	87 129.5	87 774.8	82 838.3	84 127.7	79 322.5	72 090.5	73 688.9	77 216.5	77 735.2

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

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

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

2

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

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

3

PRIME LENDING RATES
(End- of-Period)

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

4A

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

	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
US$ vs. Sterling	0.5476	0.55167	0.55279	0.5188	0.5248	0.5502	0.5653	0.5818
US$ vs. Canadian $	1.3284	1.3404	1.2417	1.2191	1.2161	1.2402	1.1606	1.1656
US$ vs. Yen	108.51	109.38	110.20	103.90	105.23	108.7532	113.340	117.880
US$ vs. Euro	0.8155	0.82097	0.80535	0.7472	0.7580	0.8227	0.8294	0.8445

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(December 2005)

	GBP	CAN$	US$	Yen	Euro
GBP	1.000	2.0054	1.7168	202.628	1.455
CAN$	0.499	1.000	0.856	98.97	0.726
US$	0.582	1.168	1.000	118.036	0.848
Yen	0.005	1.010	0.008	100.000	0.007
Euro	0.687	1.378	1.180	139.222	1.000

4C

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

		Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
Sterling vs.	US$	1.8127	1.8090	1.9278	1.9058	1.8177	1.7691	1.7168
Sterling vs.	Canadian $	2.4297	2.2853	2.3502	2.3177	2.2543	2.0532	2.0054
Sterling vs.	Yen	199.41	197.50	200.29	200.52	197.67	200.51	202.628
Sterling vs.	Euro 1/	1.4881	1.4875	1.4404	1.4445	1.4954	1.467	1.4554

5A

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

	Sep-04	Dec-04	Mar-05	Jun-05	Sept-05	Dec-05
Spot (Cash)	1823.0	1849.55	1982.40	1731.30	1857.00	2247.50
3 Month	1812.0	1851.55	1962.50	1748.18	1877.00	2236.50

5B

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
Wheat **(US$/mt)**	153.0	151	153.9	151.0	141.9	159.7	164.44
Coffee (USc/kg arabica brand)	172.4	177.4	228.82	297.1	267.4	219.3	233.18

5C

MAJOR STOCK MARKET INDICES (End- of-Period)	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
TOKYO							
Nikkei Index	11858.87	10823.57	11488.76	11668.95	11584.01	13574.3	16111.43
NEW YORK							
Dow Jones Industrials	10435.48	10080.27	10783.01	10525.26	10274.97	10568.7	10717.50
S & P Composite	1140.75	1114.58	1211.92	1183	1191.33	1228.81	1248.29
LONDON							
Financial Times SE 100	4464.1	4570.8	4814.3	4894.4	5113.2	5477.7	5618.8
FRANKFURT							
Dax Index	3892.9	4256.08	4348.77	4586.28	4348.77	5044.12	5408.26
ZURICH							
SMI Index	5465.3	5693.2	5929.7	6253.08	5929.7	6898.88	7583.93

6

WORLD COMMODITY PRICES KEY CRUDE OIL PRICES (US$/barrel – f.o.b.) (End- of-Period)	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
UAE's Dubai Light	33.4	35.48	34.26	45.58	50.97	56.54	56.75
North Sea Brent	33.04	43.38	39.64	53.08	54.31	61.88	53.13
West Texas Intermediate	35.78	37.05	45.93	43.23	56.39	66.25	59.41

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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