QUARTERLY MONETARY POLICY REPORT

October - December 2007
Volume 8 No. 3

Bank of Jamaica

Quarterly Monetary

Policy Report

OCTOBER - DECEMBER 2007

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes an examination of historical trends in fuel consumption as well as, inflation for Jamaica (Box 1 & 2). Additionally, the Economic Partnership Agreement (EPA) and its implication for Jamaica's macroeconomy is highlighted in Box 3.

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

Maintaining stability in the foreign exchange market continued to present the most significant challenge to monetary policy for most of the December quarter. This instability was underpinned by high levels of Jamaica Dollar liquidity, net unwinding of Bank of Jamaica (BOJ) CDs as well as increasing investor preference for foreign currency denominated assets. Additionally, increased spending on imports associated with higher international prices of oil and agricultural raw material exacerbated foreign currency demand pressures.

However, improved market conditions in December contributed to a lower rate of depreciation in the value of the Jamaica Dollar vis-à-vis the US dollar of 0.29 per cent for the review quarter compared to 2.61 per cent depreciation for the previous quarter. This slower rate of depreciation was influenced by monetary actions by the BOJ and a softening in external interest rates. Other factors that effected a positive influence on the foreign exchange market during December included improvements in foreign currency inflows from tourism and remittances, seasonally higher domestic currency demand and an increase in foreign investor participation in the local equities market. In the context of the improved conditions, the Jamaica Dollar appreciated by 1.05 per cent in December.

In response to the significant pressures that emerged in the foreign exchange market in the first two months of the quarter, the Bank focused on the containment of domestic liquidity and augmenting the supply of foreign currency. Specifically, the Bank augmented its normal menu of open market instruments with the offer of two special Variable Rate CDs during October and November as well as sold foreign currency to the market. Net sales of foreign currency to the market amounted to US$209.0 million, which contributed to a decline in the NIR of US$38.5 million for the quarter. Consequently, the NIR at end-December 2007 was US$ 1 877.7 million.

Against the background of an aggressive liquidity management strategy by the Bank, the monetary base expanded by 19.8 per cent for the quarter relative to the programmed expansion of 20.6 per cent for the review period. This expansion was largely reflected in higher net currency issue of $9 774.7 million, primarily associated with the holiday season. The main source of the expansion in currency issue was the net unwinding of BOJ 30-day to 180-day CDs of $15 030.0 million.

The net unwinding of BOJ open market instruments facilitated an expansion in broad Jamaica money supply (M3J) of 8.2 per cent, higher than the programmed expansion of 7.2 per cent for the December 2007 quarter. This growth in money supply was reflected in increases in both local currency deposits and currency in circulation of $12 812.5 million and $7 180.0 million, respectively. The increase in M3J was also facilitated by an expansion of $8 076.7 million or 5.5 per cent in banking system credit to the private sector that principally reflected robust growth in ***Personal Loans*** as well as foreign currency denominated loans to ***Electricity***, ***Gas & Water*** and ***Tourism***. While this expansion surpassed the increase of 4.3 per cent outlined in the monetary programme, it represented a deceleration relative to the increases of 9.3 per cent and 10.4 per cent during the September 2007 and December 2006 quarters, respectively.

Estimates of real sector performance for the December 2007 quarter indicate a weakening in overall GDP growth relative to the 0.4 per cent recorded in the September 2007 quarter. This deceleration follows an average expansion of 2.1 per cent for the December quarter over the last eight years. The economy's performance for the quarter was influenced by the declines in ***Agriculture***, ***Mining*** and ***Electricity & Water.*** These declines arose mainly from damage to long-term crops and reductions in capacity utilization associated with the passing of Hurricane Dean in the September 2007 quarter and extensive rainfall in October. Growth within the review period emanated from ***Construction & Installation***, ***Distributive Trade***, ***Financing & Insurance*** and ***Tourism***.

Although the economy's output declined below its potential level, inflationary pressures were not curtailed in the review quarter. Headline inflation was 7.3 per cent for the December 2007 quarter relative to 3.6 per cent for the preceding quarter. For the fiscal year to December, inflation was 14.0 per cent compared to 4.8 per cent in the prior comparable period.

Most of the inflation in the quarter emanated from food such that ***Food & Non-Alcoholic Beverages*** contributed 66.7 per cent to inflation. Energy costs were also significant, with ***Housing, Water***, ***Electricity, Gas & Other Fuels*** contributing 12.0 per cent to inflation.

Core inflation increased in the December quarter, continuing the reversal of the downward trend in monthly core inflation that occurred in the previous quarter. Underlying or core inflation as measured by the CPI excluding agriculture and fuel (CPI-AF) was 5.8 per cent for the quarter, twice the outturn for the previous quarter. Similarly, the CPI excluding agriculture (CPI-A), increased to 5.9 per cent in the review quarter, from 2.8 per cent in the September quarter. The trimmed-mean measure of core inflation also increased by 4.0 per cent from 1.9 per cent in the previous quarter.

The main contributors to headline inflation in the December 2007 quarter were domestic supply shortages of agricultural produce, higher international grain prices as well as lagged and contemporaneous pass-through of previous increases in energy costs. The impact of these factors was exacerbated by the 2.6 per cent depreciation in the exchange rate of the Jamaican currency vis-à-vis the United States dollar over the previous quarter.

In the context of explaining the key factors for the significant increase in inflation during the review quarter, **Box 1** and **Box 2** explore historical trends in fuel consumption and inflation for Jamaica. Evidence over the period 2000 to 2006 indicates insensitivity on the part of Jamaican consumers to fuel price increases. However, a decomposition of fuel demand by type of economic activity suggests that the Jamaican productive sector has been the main source of the increase in fuel volumes over this period.

Headline inflation for the March 2008 quarter is expected to moderate to 3.5 per cent ± 0.5 percentage point, relative to the 7.3 per cent in the December 2007 quarter. The anticipated moderation in inflation reflects the impact of greater supplies of domestic food crops and a slowing in the rate of depreciation, in general, relative to the December quarter. The main policy challenges for the Bank during the March 2008 quarter are expected to emanate from strong liquidity inflows as well as the rise in inflation expectations.

Real GDP in the March 2008 quarter is expected to strengthen relative to the slow growth recorded over the past two quarters. The rebound in economic growth is anticipated from recovery in the goods sector while the positive trend in the services sector is expected to continue. ***Construction & Installation***, ***Mining***, ***Basic services*** and ***Manufacturing*** are expected to be the main drivers of growth.

An Economic Partnership Agreement (EPA) was signed on 16 December 2007 between CARIFORUM and the EU covering goods, services, investment and trade-related issues such as innovation and intellectual property. The establishment of the EPA has implications regarding the performance of Jamaica's economy over the medium-term. **Box 3** will explore these implications with respect to inflation, economic growth, balance of payments and the fiscal accounts.

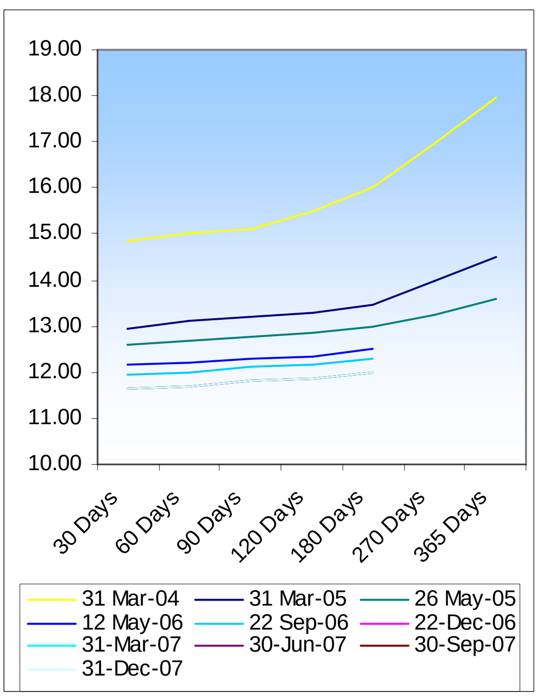
1. Monetary Policy and Financial Markets

Table 1.1

Selected Economic Indicators	Outturn for Dec'07 Quarter	Projection for Dec'07 Quarter	Original Targets for FY07/08
Inflation (% change)	7.3	*2.9*	*6.0-7.0*
Base Money (% change)	*19.8*	*20.6*	*11.1*
NIR (eop) (US$ mn)	*1 877.7*	*2 055.88*	*2 216.1*

Liquidity management was aided with the offer of two variable rate certificates of deposit

Figure 1.1
BOJ Open Market Operations Yield Curve



Money & Credit

Monetary Policy and Base Money Management

*During the December 2007 quarter, high Jamaica Dollar liquidity facilitated strong demand for foreign currency assets similar to the three previous quarters. As such, the main challenge for monetary policy was the instability in the foreign exchange market and diminished confidence in the Jamaica Dollar. Consequently, the Bank of Jamaica (BOJ) sold foreign currency and issued two variable rate certificates of deposit (CDs)in the quarter. In addition, the BOJ continued to offer its 30 to 180 day CDs at the same rates. Against this background, the monetary base expanded by **19.8 per cent** for the quarter relative to the programmed expansion of 20.6 per cent.*

During the first two months of the December quarter, liquidity emanating from maturing open market instruments facilitated significant demand for foreign currency assets. This strong demand had been a characteristic of the foreign exchange market since the start of the calendar year. It was further exacerbated by the uncertainty surrounding the replacement of a US dollar indexed bond due to mature in November as well as demand from the energy sector stemming from the increase in oil prices **(**see **Foreign Exchange Market)**.

In this context, the Bank focused on the containment of domestic liquidity and augmenting the supply of foreign currency in order to facilitate stability in the foreign exchange market. As such, in addition to the normal 30-day to 180-day tenors of open market instruments, the Bank offered two variable rate certificates of deposit (VR CDs). The Bank offered VR CDs from 12 to 26 October (Series F) and 16 to 28 November (Series G) with initial quarterly interest payments of 14.34 per cent and 13.46 per cent, respectively. The repricing margins were 1.625 percentage points and 1.5 percentage points on the GOJ 90-day Treasury Bill rate, for the Series F and Series G VR CDs, respectively. These VR CDs cumulatively absorbed $16 598.3 million from the system. The Bank's net intervention sales of foreign currency to the market amounted to US$209.0 million which contributed to a decline in the NIR of US$38.5 million for the quarter **(**see **Table 1.2** and **Foreign Exchange Market).**

Table 1.2

Net International Reserves Oct - Dec 2007 Flows (US$MN)				
	Oct	Nov	Dec	Total
NIR	8.3	-116.1	69.1	-38.6

Figure 1.2

Base Money

(Quarterly Change)

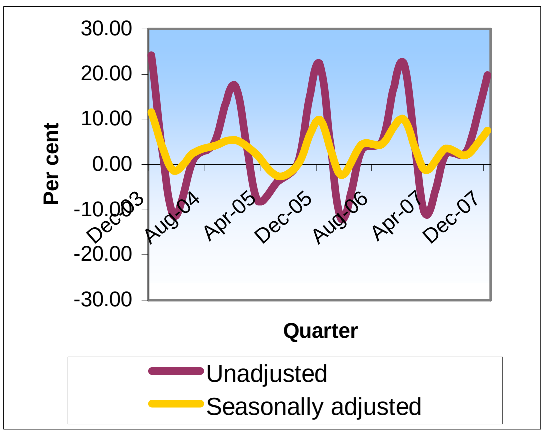
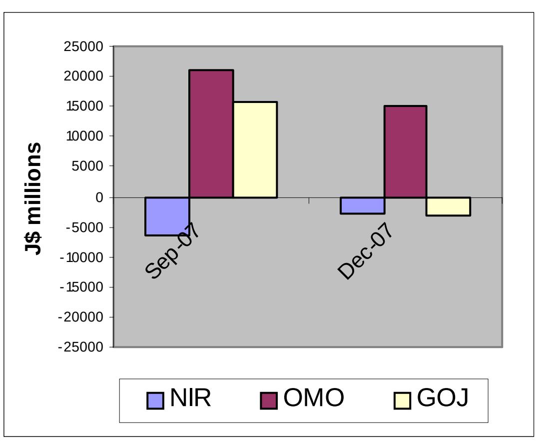


Figure 1.3

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



*Absorption-negative, Injection-positive

During the month of December, the Bank's liquidity management strategy was complimented by improvements in the supply of foreign currency from tourism and remittances. Additionally, there was a widening of the interest rate differential between domestic and foreign assets resulting from the reduction of the US Federal Funds (Fed) rate. These factors contributed to the relative stability in the foreign exchange market and engendered episodes of appreciation of the Jamaica Dollar during the month of December.

The Bank kept rates unchanged on its normal 30- to 180-day open market instruments during the quarter (see **Figure 1.1**). This decision was based on its expectations of a widening in the interest differential and increased foreign currency flows from spending associated with the winter tourist season**.** It was expected that foreign currency flows would temper the depreciation in the exchange rate and the subsequent pass through to inflation.

Against the background of the Bank's policy action, the expansion in the monetary base was contained to $10 785.4 million or 19.8 per cent, relative to the programmed expansion of 20.6 per cent (see **Table 1.1** and **Figure 1.2**). This expansion was largely reflected in net currency issue of $9 774.7 million or 26.1 per cent, relative to the stock at end September 2007. This compared favourably with the programmed issue of 27.1 per cent. The expansion in currency issue was mainly due to the increased demand in December associated with the holiday season. The main source of the expansion in base money during the quarter was the net unwinding of open market instruments of $15 030.0 million which facilitated the high demand for foreign currency. The growth in the monetary base for the quarter implied a 25.9 per cent expansion for the fiscal year to date, relative to a programmed expansion of 24.1 per cent for the fiscal period.

Figure 1.4

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

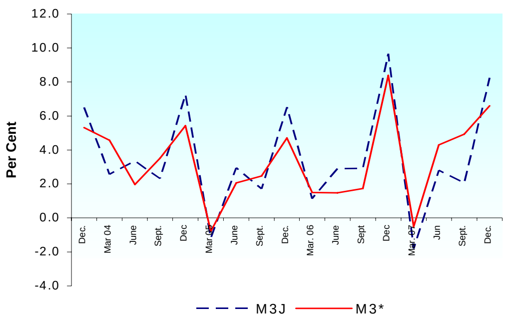


Table 1.3

Money Supply /1 (12-month growth rates)		
MJ	**Dec-06**	**Dec-07**
M1J	24.9	14.0
M2J	17.1	11.3
M3J	17.5	11.5
M*		
M1*	16.8	16.9
M2*	11.1	14.3
M3*	11.9	13.7

Table 1.4

INTEREST RATES IN THE DOMESTIC MARKET			
	Oct-06	**Sep-07**	**Oct-07**
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
Overall	**5.17**	**4.89**	**4.89**
Demand	2.74	2.55	2.64
Savings	4.72	4.50	4.50
Time	6.97	6.85	6.90
Foreign Currency	**3.24**	**3.11**	**3.11**
Demand	2.58	2.04	2.07
Savings	2.26	2.31	2.33
Time	5.14	5.07	5.06
6-MONTH TREASURY BILL RATE	**12.30**	**14.29**	**13.61**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**12.30**	**12.00**	**12.00**
PRIVATE MONEY MARKET RATE	**12.20**	**12.70**	**13.50**
memo:			
6-MONTH U.S. TREASURY RATE	**4.92**	**4.20**	**4.16**

Money Supply

During the December 2007 quarter, broad Jamaica Dollar money supply (M3J) increased by 8.2 per cent, above the 7.2 per cent growth outlined in the monetary programme. The deviation from programme largely reflected a higher than projected build up in local currency deposits. This was mainly facilitated by a larger than anticipated net unwinding of open market securities.

The measure of money supply that includes foreign currency deposits, M3, increased at a slower pace, relative to M3J, in the context of improved conditions in the foreign exchange market towards the end of the quarter. Consequently, the ratio of foreign currency deposits to total private sector deposits declined to 30.6 per cent at end-December 2007, relative to 31.3 per cent at end-September 2007.*

For the December 2007 quarter, broad Jamaica Dollar money supply (M3J) increased by 8.2 per cent. This increase was above the 7.2 per cent growth anticipated in the monetary programme but below the outturn of 9.6 per cent recorded in the December 2006 quarter (see Figure 1.4). The expansion in M3J for the review quarter brought growth for the first nine months of the fiscal year to 13.5 per cent, within the programme target of 14.0 per cent.

The main source of growth in M3J for the December 2007 quarter was the net unwinding of OMO securities amounting to $15 030.0 million, complemented by an expansion of $4 962.3 million in banking system credit to the private sector (see **Private Sector Credit**).

The growth in money supply during the review quarter was reflected in increases in both local currency deposits and currency in circulation. Local currency deposits grew by $ 12 812.50 million or 6.1 per cent, significantly above the growth of 2.0 per cent in the September 2007 quarter but below the 7.2 per cent growth recorded in the December 2006 quarter.

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

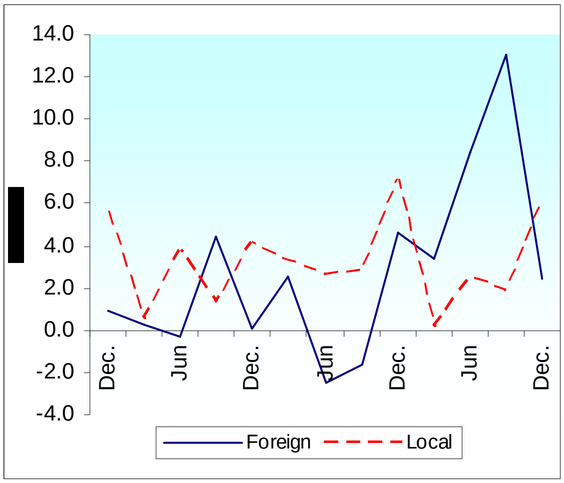


Figure 1.6
Foreign Currency Deposits to Total Deposits
December 2004 to December 2007

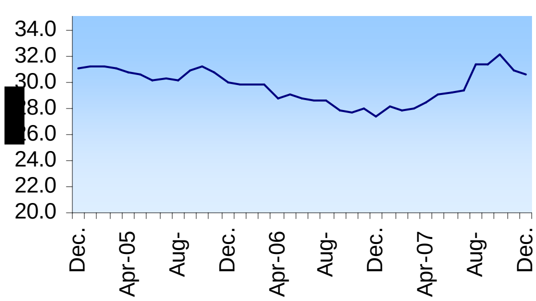


Table 1.5

COMPONENTS OF THE MONEY MULTIPLIER	Dec-06	Sep-07	Dec-07
	%	%	%
Currency to Deposits	17.91	16.02	18.33
Reserves to Deposits	11.11	10.03	11.08
Excess Reserves to Deposits	*3.69*	*1.95*	*3.30*
Cash Reserves to Deposits	*7.42*	*8.08*	*7.78*
Money Multiplier	**4.06**	**4.45**	**4.02**

The increase in M3J during the review quarter largely reflected growth of 15.1 per cent and 5.3 per cent in demand and other deposits, respectively. Currency in circulation, the other components of M3J, increased by $7 180.0 million or 21.4 per cent, below the 25.8 per cent growth recorded for the corresponding period of 2006. Notwithstanding this, the expansion in currency in circulation was consistent with increased spending during the Christmas season.

During the review quarter, M3* grew by 6.6 per cent, relative to the 8.4 per cent increase for the December 2006 quarter (see **Figure 1.4**). Within M3*, foreign currency deposits expanded by 2.4 per cent, a marked deceleration relative to robust growth of 8.5 per cent and 13.0 per cent, in the two previous quarters, respectively. The growth in the quarter was also below the expansion of 4.6 per cent recorded in the corresponding period of 2006. A tightening in the Bank's monetary policy stance, the widening of the interest rate differential, resulting from the reduction of the US Federal Funds rate and improvements in the supply of foreign currency, contributed to the slowdown in the growth of foreign currency deposits. Lower growth in these deposits influenced a reduction in the ratio of foreign currency deposits to total private sector deposits to 30.6 per cent at end-December 2007 from 31.3 per cent at end-September 2007. However, this was above the 27.3 per cent recorded at the end of the December 2006 quarter (see **Figure 1.6**).

At end-December 2007, the money multiplier was 4.02 relative to 4.45 at the end of the previous quarter and 4.06 at end-December 2006. The outturn for the quarter reflected increases in both the cash reserve to deposit and the currency to deposit ratios. Growth in the currency to deposit ratio was as a consequence of the increased demand for cash balances during the period (see **Table 1.5**).The increase in the reserves to deposit ratio was in the context of higher vault cash holdings maintained by commercial banks compared to the outturn for the previous quarter and continued growth of local currency deposits.

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

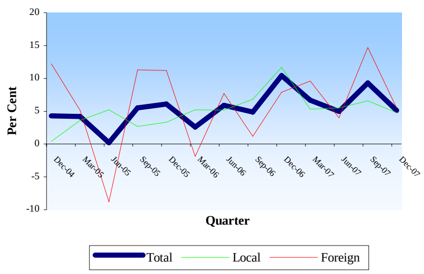


Table 1.6

Commercial Bank Distribution of Total Credit to the Private Sector J$ Million (Quarterly Flows)			
	Dec-06	Prov. Sep-07	Prov. Dec-07
Total Private Sector Credit	**12 923.1**	**13 539.1**	**8 040.4**
Loans and Advances	11 042.3	12 923.1	8 076.7
Other Investments and Private Debentures	1 880.9	616.0	-36.3

Table 1.7

Commercial Bank Distribution of Loans & Advances to the Private Sector (Quarterly Flows J$M)			
	Dec-06	Sep-07	Dec-07
Agriculture & Fishing	494.6	-290.2	173.8
Mining & Quarrying	15.4	-9.1	-44.3
Manufacturing	-1 427.1	825.2	-50.1
Construction & Land Dev.	940.5	350.3	-1 450.4
Transport, Storage & Comm.	162.8	741.1	1 118.1
Tourism	2 183.3	3 293.1	1 601.7
Distribution	3 340.1	681.7	579.8
Professional & Other Services	1 133.4	1 201.2	-85.5
Personal Loans	4 164.5	4 637.6	5 522.3
Electricity, Gas & Water	57.0	1 514.7	714.3
Entertainment	-25.3	-14.8	-3.2
Overseas Residents	3.1	-7.5	0.2
TOTAL	**11 042.3**	**12 923.1**	**8 076.7**

Private Sector Credit

*Private sector credit expanded in the December 2007 quarter, surpassing the target outlined in the monetary programme. The increase in loans during the review quarter principally reflected buoyant growth in **Personal Loans** as well as foreign currency denominated loans to **Electricity, Gas & Water** and **Tourism**. Consistent with the trend over the past six quarters, the ratio of private sector loans to total assets continued to increase as the commercial banks maintained their aggressive marketing of private sector loans.*

At end-December 2007, the stock of private sector credit was $167 044.4 million, representing an expansion of 5.5 per cent for the review quarter. While this expansion surpassed the increase of 4.3 per cent outlined in the monetary programme, it represented a deceleration in growth relative to increases of 9.3 per cent and 10.4 per cent during the September 2007 and December 2006 quarters, respectively (see **Figure 1.7**). The growth for the review quarter contributed to an expansion of 20.5 per cent for the fiscal year to December 2007, well above the increase of 10.9 per cent outlined within the financial programme. The robust growth in private sector credit largely reflected a significant expansion in foreign currency denominated loans.

Loans and advances to the private sector expanded by $8 076.7 million or 5.2 per cent during the review quarter (see **Table 1.6**). This increase continued to be largely concentrated in ***Personal Loans.*** These loans expanded by 8.1 per cent during the review quarter relative to 7.3 per cent in the previous quarter and 8.0 per cent in the December 2006 quarter. This category of loans continued to account for the largest proportion of the outstanding stock of private sector loans (see **Figure 1.8**). Credit card receivables increased by 8.9 per cent during the review quarter compared to growth of 4.2 per cent in the corresponding period of 2006.

Loans to ***Tourism***, ***Transport, Storage & Communication, Electricity, Gas & Water*** *and* ***Distribution*** also recorded robust growth during the review quarter (see **Table 1.7**). Loans to the tourism sector increased by 5.7 per cent, slower than the increases of 13.3 per cent and 9.9 per cent in the September 2007 and December 2006 quarters, respectively. The expansion in these loans, which were largely denominated in foreign

Figure 1.8

Sectoral Distribution of Commercial Bank Loans & advances to the Private Sector Per Cent of outstanding Stock December 2006 & December 2007

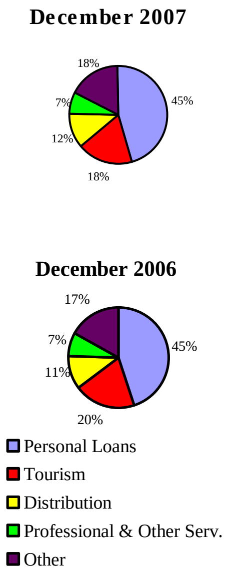


Table 1.8

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US$M)	Dec-06	Sep-07	Dec-07
Agriculture & Fishing	0.1	4.1	0.8
Mining & Quarrying	-0.3	-0.3	-0.9
Manufacturing	-24.1	2.5	-2.6
Construction & Land Development	7.9	-0.6	4.9
Transport, Storage & Comm.	4.4	7.4	14.7
Electricity, Gas & Water	-1.9	21.4	10.2
Distribution	22.2	1.2	-4.2
Tourism	21.9	36.8	13.6
Entertainment	-0.3	-0.1	-0.1
Professional & Other Services	-0.1	4.0	-1.0
Personal Loans	4.6	7.2	5.4
Overseas Residents	0.0	0.0	0.0
TOTAL	**34.3**	**83.7**	**40.9**

currency, is consistent with an increase in construction in the sector and seasonal refurbishment activities in preparation for the winter tourism season. Loans to ***Transport, Storage & Communication*** expanded by 15.8 per cent during the review quarter, compared to growth of 11.7 per cent and 4.6 per cent in the September 2007 and December 2006 quarters, respectively. The increase to this sector during the review quarter reflected growth in loans to a telecommunication firm as well as, to facilitate expansion of the wharf. The strong growth in loans to ***Electricity, Gas & Water*** which was recorded in the September 2006 quarter continued in the review quarter as loans expanded by 42.2 per cent, largely reflecting advances to the country's major electricity company. In contrast, there was a sharp deceleration in loans to the distribution to 3.2 per cent from 32.7 per cent in the corresponding quarter of 2006. There were significant net repayments within ***Construction & Land Development*** in the review quarter while loans to all other sectors remained relatively flat.

The increase in loans and advances reflected notable growth in foreign currency denominated loans of US$40.9 million or 5.0 per cent. This occurred against the background of relative instability in the foreign exchange market. This growth pace was however, slower than the expansions of 11.4 per cent and 5.4 per cent in the September 2007 and the December 2006 quarters, respectively. The growth in foreign currency loans reflected buoyant increases in credit to ***Transport, Storage & Communication, Tourism***, ***Electricity, Gas & Water***, as well as ***Personal Loans*** (see **Table 1.8**). ***Tourism*** continued to account for the largest proportion of foreign currency loans at end-December 2007 (see **Figure 1.9**). Consequent on the continued growth in foreign currency loans during the review quarter, the proportion of these loans to total loans increased to 35.4 per cent at end-December 2007 from 33.0 per cent at end-December 2006.

Interest Rates

For the two months ended November 2007, the overall weighted average lending rate increased by 15 basis points (bps). Of this, the weighted average lending rate on private sector loans rose by 15 basis points mainly reflecting an increase in the volume of loans within the *Instalment* and *Personal* categories, as all categories recorded a decline in lending rates over the two-month period. The lending rate on public sector loans increased by 11 bps over the two months ended November

Figure 1.9

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

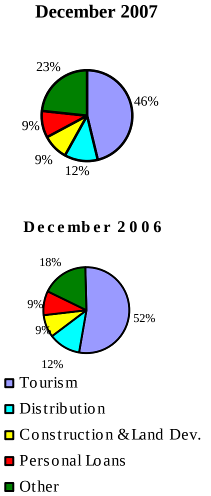
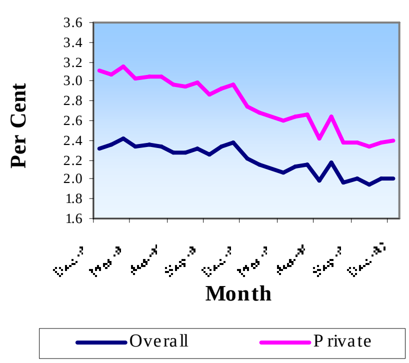


Table 1.9

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type Per Cent			
	Nov-06	**Sep-07**	**Nov-07**
Overall	**17.64**	**17.06**	**17.20**
Public Sector	**12.44**	**11.63**	**11.74**
Local Govt. & Other Public Ent.	11.62	11.03	10.83
Central Government	15.91	14.18	15.02
Private Sector	**18.91**	**18.09**	**18.24**
Instalment	21.68	21.20	20.99
Mortgage	13.93	8.19	8.00
Personal	28.43	25.43	25.30
Commercial	13.75	13.76	13.65

Figure 1.10

Commercial Banks' Past due Loans
(Three Months and over) to Total Loans
December 2005 to December 2007



2007 mainly due to an increase in the lending rate to *Central Government* (see **Table 1.9**)

Performance Indicators

The continued aggressive marketing of loans by the commercial banks in recent years facilitated a further increase in the ratio of private sector credit to total assets to 34.2 per cent at end-December 2007 from 33.9 per cent at end-September 2007 and 30.4 per cent at end-December 2006. At end-December 2007, the quality of the loan portfolio, as evidenced by the ratio of past due loans (over three months) to total private sector loans, remained at the 2.4 per cent level recorded at end-September 2007 but was below the 2.7 per cent at end-December 2006. (see **Figure 1.10**).

T able 1.10

GOJ Public Domestic Debt Raising October - December 2007	Amount allotted (J$MN)	Amount maturing (J$MN)	Net maturities (J$MN)
Treasury bills	3,200.0	2,700.0	-500.0
Variable Rate LRS	0.0	516.1	516.1
Fixed Rate LRS	0.0	2,000.0	2,000.0
Var. Rate Inv. Deb.	17,792.8	0.0	-17,792.8
Fixed Rate Inv. Deb.	0.0	4,124.5	4,124.5
Var. Rate Inv. Bd.	0.0	7,483.2	7,483.2
Fixed Rate Inv. Bd.	0.0	0.0	0.0
Fixed Rate Reg. Bd.	2,846.6	0.0	-2,846.6
Sub-total	23,839.4	16,823.9	-7,015.5
Fixed Rate Ind.Bd.	*85.0*	*82.6*	*-2.4*
J$ equivalent	6,057.1	*5,886.4*	-170.7
Total (J$)	29,896.5	22,710.3	-7,186.2

GOJ continued to issue variable rate debt

Table 1.11

Treasury Bill Auctions and Maturities October - December 2007

Issue Date	Tenor (days)	Avg. yield (%)	Allotment (J$M)	Amount Maturing (J$M)
12-Oct-07	364	14.06	500	
26-Oct-07	182	13.61	500	
	91	13.46	400	
				900.0
30-Nov-07	182	13.57	500.0	
	91	13.24	400.0	
				900.0
21-Dec-07	182	13.34	500.0	900.0
	91	12.89	400.0	
Total			**3200.0**	**2700.0**

Average yields on GOJ Treasury bills decline

Bond Market

Jamaica Dollar liquidity remained high during the December 2007 quarter, but was more widely distributed among banks and primary dealers compared to the previous quarter. Some of the available liquidity was used to finance residual foreign exchange demand from the retail sector. The liquidity also facilitated a general decline in market-determined interest rates during the quarter, notwithstanding upward pressures on interest rates early in the quarter, which emerged as investors' appetite for foreign exchange hedge instruments remained strong. In order to reduce the liquidity and thereby engender stable conditions, the BOJ intervened in the foreign exchange market and also offered two VR CD.

During the quarter, the GOJ reduced its debt-raising activity in the local bond market relative to the previous quarter. However, the GOJ raised US$150.0 million in the international capital market.

During the December 2007 quarter, the GOJ net issued $7 186.2 million in debt, (**see Table 1.10**). This represented a decline compared to $8 378.4 million net issued in the previous quarter. Similar to the previous quarter, VR instruments constituted the majority of the total allotment. Given the previous quarter's higher Treasury bill outturn, the initial interest payments on these instruments were at higher interest rates. However, the repricing margin was maintained at 1.50 percentage points above the specified weighted average GOJ Treasury bill yield. During the quarter, the GOJ also replaced a US dollar indexed bond which matured on 9 November. This was the first time since November 2003 that an indexed bond was offered.

Given the high level of liquidity, which was more widely distributed within the financial sector when compared to the previous quarter, as well as declining US Federal funds rates, the yields on both the 90-day and 180-day tenors of GOJ Treasury Bills fell during the quarter. The yields declined at each successive auction. The yields on the 90-day instruments fell more sharply (**see Table 1.11**).

Table 1.12

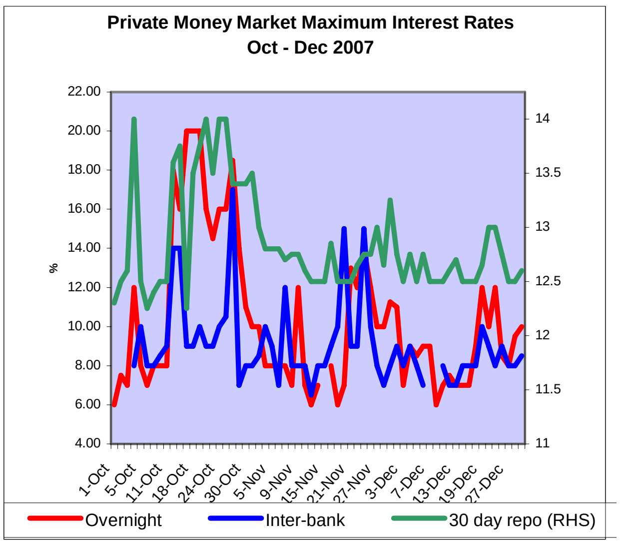
Placements and Maturities* in BOJ OMO Instruments: October - December 2007

	Maturities		Placements		Placements	
	($)	(%)	($)	(%)	($)	(%)
30-day	39,870.8	42.9	49,244.5	75.4	33,170.3	58.8
60-day	1,046.2	1.1	4,327.7	6.6	1,087.3	1.9
90-day	5,209.1	5.6	3,116.8	4.8	5,141.4	9.1
120-day	4,394.7	4.7	979.9	1.5	1,907.5	3.4
180-day	42,520.5	45.7	7,627.8	11.7	15,099.9	26.8
270-day	0.0	0.0	0.0	0.0	0.0	0.0
365-day	0.0	0.0	0.0	0.0	0.0	0.0

***excludes overnight transactions during the period**

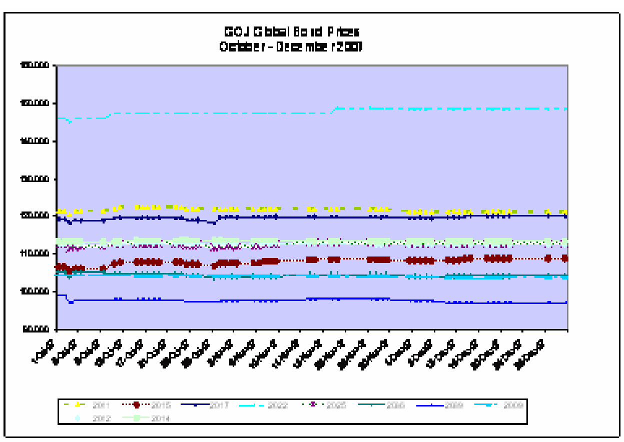
Investors showed preference for 30-day OMOs

Figure 1.11



Average money market rates decline

Figure 1.12



GOJ Global bond prices appreciate gradually

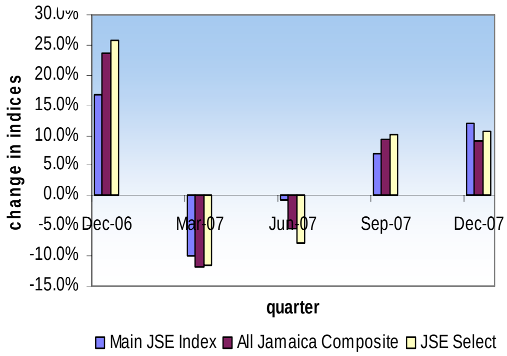
Consistent with the higher and more widely distributed Jamaica Dollar liquidity, the average of private money market rates also declined during the review quarter. Spikes in rates during the quarter coincided with relative instability in the foreign exchange market early in the review period, GOJ debt raising and absorbtions arising from BOJ's offers of VR CD (**see Figure 1.11**).

The BOJ sold two VR CDs, issued at the prevailing weighted average 90-day Treasury Bill yield (WATBY) of 14.34 per cent and 13.46 per cent, with repricing margins of 1.625 and 1.5 percentage points, respectively. These instruments absorbed $16 598.3 million (**see Base Money**). For the quarter, there was a net unwinding of BOJ 30- to 180-day OMO instruments. In particular, there was net unwinding across all tenors in October which facilitated purchases of foreign currency. Maturities also outweighed placements in November, albeit to a lesser extent, but there were net placements on the 30-day tenors as instability in the foreign exchange market subsided. In December, relative stability in the foreign exchange market precipitated net placements, notably, on the 60-day tenors. However, the 30-day tenor overall, attracted most of the placements during the quarter (**see Table 1.12**).

GOJ global bond prices fell during October as a result of investors shifting their resources away from these assets in response to the instability in the Jamaican foreign exchange market. However, against the background of the cuts in Fed funds rate of 25 basis points on 31 October and 11 December, the prices on some of the bonds recovered gradually.

On 4 October, the GOJ reopened the global bonds maturing in 2039 and raised an additional US$150.0 million. The bonds were originally issued on 15 March 2007 (**see Figure 1.12**).

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



Source: Jamaica Stock Exchange

Figure 1.14
Stock Market Capitalization – 31 December 2007

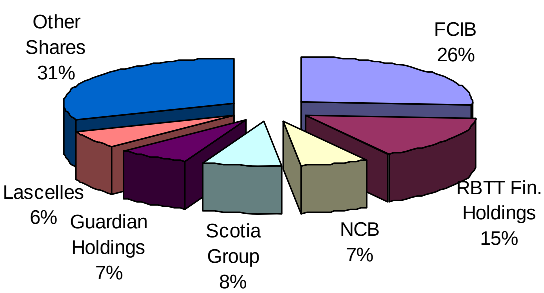


Table 1.13
Average Price Gains by Business Category – December 2007 Quarter

Category	Dec 2007 Qtr
Financial	5.8
Manufacturing	8.0
Conglomerates	33.1
Insurance	10.2
Tourism	-37.1
Retail	7.2
Communication	33.8
Other	11.9

Stock Market

The Main Jamaica Stock Exchange (JSE) Index registered strong gains during the December 2007 quarter. Growth in the equities market was influenced by improved earnings results for many of the listed companies as well as announced acquisitions during the quarter. However, the market's performance was constrained by a strong take-up of preference share offers during the review period. The demand for local equities was also tempered by higher inflation expectations during the December quarter, which contributed to some investors repositioning their assets portfolios in favour of foreign currency assets.

Relative to end September 2007, the Main JSE Index increased by 12.1 per cent as at end December 2007. Similarly, the All Jamaica Composite index increased by 9.1 per cent, while the JSE Select index rose by 10.7 per cent (see **Figure 1.13**). Growth in the Main JSE index followed an average decline of 1.2 per cent over the previous three quarters. However, in the context of the performance in the December quarter, there was an overall gain of 7.2 per cent gain for 2007.

The gain in market performance during the quarter was partly influenced by improved earning results of many of the listed companies. Growth in the indices was also supported by strong increases in market activity related to the pending acquisition of Lascelles DeMercado by Angostura Holdings of Trinidad and Tobago and the proposed takeover of Royal Bank of Trinidad & Tobago (RBTT) Financial Holdings by the Royal Bank of Canada.[1] However, the advances in the stock market were tempered by increased demand for foreign currency assets by some equity investors who sought to preserve the real value of their portfolios due to higher inflation expectations during the quarter. Growth in the equities market was also constrained by strong demand for preference shares given the attractive monthly returns provided on these investments.[2]

[1] On 23 November 2007, the Board of Directors of Lascelles DeMercado indicated that Angostura Holdings Ltd offered to pay Lascelles shareholders US$10.65 per ordinary share, which offered an attractive premium above the share's closing price of J$465 on that day. Royal Bank of Canada also offered shareholders an attractive premium of 18.0 per cent on the closing price of RBTT shares on 28 September, 2007.

[2] Mayberry Investments and JMMB issued preference share offers during the quarter.

Table 1.14
10 Largest Advancing Stocks -
December 2007 Quarter

Companies	Price at 31-Dec-07 $	Qtr. Change %
Advancing Stocks		
Financial		
Mayberry	4.90	40.40
FCIB	152.00	19.69
JMMB	11.00	15.67
First Jamaica Investments	41.00	28.13
Manufacturing		
CMP	4.25	165.63
Communications		
Radio Jamaica	3.60	20.00
Gleaner Company	4.30	95.45
Conglomerates		
Lascelles	565.0	100.00
Insurance		
Guardian	290.0	16.00
Other		
Supreme Ventures	2.82	22.61

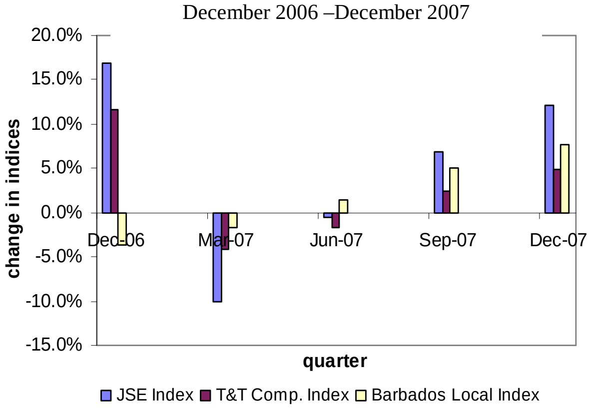
Source: Jamaica Stock Exchange

Table 1.15
Declining Stocks -
December 2007 Quarter

Companies	Price at 31-Dec-07 $	Qtr. Change %
Declining Stocks		
Manufacturing		
D&G	7.00	-10.14
Jamaica Broilers Group	4.50	-11.76
Salada	44.00	-34.33
Goodyear	4.92	-19.34
Financial		
CCMB	9.60	-8.57
FCIBJ	27.00	-30.95
Communication		
Cable & Wireless	0.67	-14.10
Tourism		
Montego Freeport	1.60	-20.00
Pegasus Hotel	10.65	-11.25
Ciboney Group	0.01	-80.00

Source: Jamaica Stock Exchange

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



The positive market performance in the review period was reflected in growth of 11.0 per cent in market capitalization to $876.7 billion at end December 2007. This performance was influenced by significant stock price gain for Lascelles and most of the highly capitalized listed companies. At end December 2007, Lascelles, First Caribbean International Bank (FCIB), RBTT Financial Holdings, National Commercial Bank (NCB), Scotia Group Jamaica, and Guardian Holdings accounted for the largest shares of this increased market capitalization (see **Figure 1.14**).

For the December 2007 quarter, 24 stocks recorded price gains while 19 experienced declines. Declining stocks were mainly from the financial, manufacturing and tourism sectors, which moderated the average price performances during the quarter (see **Table 1.13**). The generally weak investor interest for stocks in the financial sector may have been due to investor uncertainty regarding the sustainability of alternative investment schemes and the impact of a collapse of these ventures on the financial system. For manufacturing companies, the dampened share price performances may have reflected pessimistic investor outlook regarding the prospects for company performance due to continued uncertainty regarding the path of oil prices. The strong price declines for listed companies in the tourism sector were influenced by the generally weak profit performance for these companies during the quarter. Among the top stock price performers for the quarter were Lascelles, CMP Industries Limited, Gleaner Company and Mayberry Investments (see **Table 1.14**).[3] The worst performers were Ciboney, Salada Foods, FCIBJ and Montego Freeport (see **Table 1.15**).

Within the Caribbean, the main stock market indices of the Trinidad & Tobago and Barbados stock exchanges registered increases during the December 2007 quarter. For Trinidad & Tobago, the Composite Index increased by 4.9 per cent, compared to an increase of 2.5 per cent in the previous quarter while for Barbados, the Local Index increased by 7.7 per cent relative to an increase of 5.0 per cent for the September 2007 quarter (see **Figure 1.15**). These performances were influenced by strong price gains by many of the Jamaican cross listed entities.

[3] Mayberry Investments and Gleaner Company posted strong profits during the quarter.

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

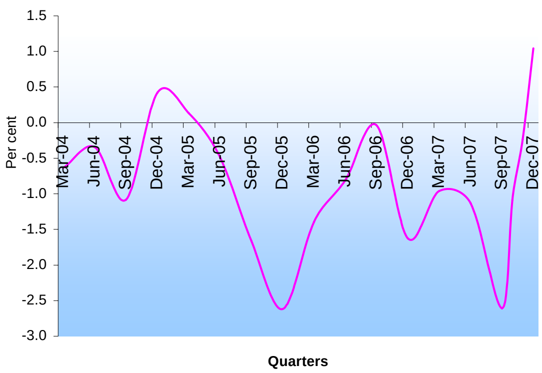
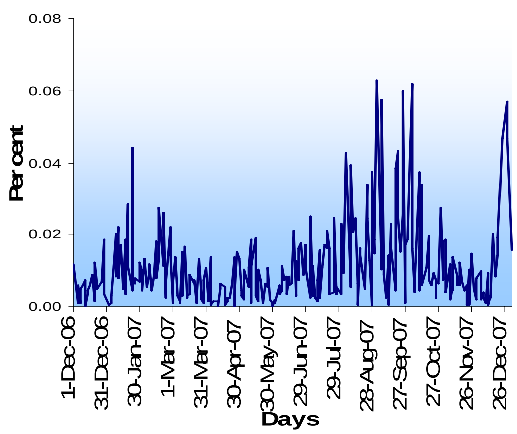
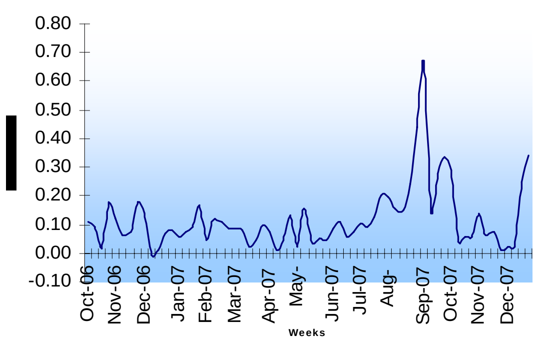


Figure 1.17
Exchange Rate Volatility (*)



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

Figure 1.18
Weekly Exchange Rate Trading Range



Foreign Exchange Market

There were demand pressures in the first half of the review quarter notwithstanding a decline in the rate of depreciation of the Jamaica dollar vis-à-vis the US dollar. The pressures in the market, which were evident in October, were influenced by high levels of Jamaica Dollar liquidity as well as increased demand for US dollars primarily from the energy sector. However improved market conditions in December contributed to a slowing in the rate of depreciation of 0.29 per cent in the December 2007 quarter, relative to a 2.61 per cent depreciation in the preceding quarter. The decline in the pace of depreciation also reflected an increase in private capital inflows. This was associated with the improved attractiveness of Jamaica Dollar denominated assets as well as higher portfolio inflows. In the context of the demand pressures, the Bank of Jamaica (BOJ) offered two variable rate instruments over a brief period and sold foreign exchange to the market. The NIR at end-December 2007 stood at US$1 877.7 million

The weighted average selling rate (WASR) of the US Dollar increased to J$70.62 = US$1.00 at end-December 2007 from J$70.41 = US$1.00 at end-September. This represented a depreciation of 0.29 per cent, significantly below the average depreciation of 1.27 per cent in the preceding three December quarters and the 2.61 per cent depreciation in the September 2007 quarter. The overall depreciation in the quarter, however, masked the intense demand pressures that were evident in the first half of the quarter. The exchange rate depreciated by 1.08 per cent (or 0.89 cents) and 0.24 per cent (or 0.29 cents) in October and November, respectively, and appreciated by 1.05 per cent (or 0.14 cents) in December (see **Figure 1.16)**. For calendar year 2007, the value of the Jamaica Dollar vis-à-vis the US Dollar declined by 4.91 per cent, as compared to the 3.82 per cent depreciation recorded in 2006.

Consistent with the reduction in the pace of depreciation over the review quarter, there was a decline in the average weekly market trading range to J$0.11, relative to an average of J$0.24 for the preceding quarter (see **Figure 1.18**).[4] The instability in the first half of the quarter, however, resulted in a 7.3 per cent increase in the average bid-ask spread, relative to the September 2007 quarter (see **Figure 1.19**).

4The trading range for the exchange rate is an indicator of risk or uncertainty. It is the difference between the high and low quotes for the sale of US dollars over a particular period.

Table 1.16
Foreign Exchange Cash Flows*

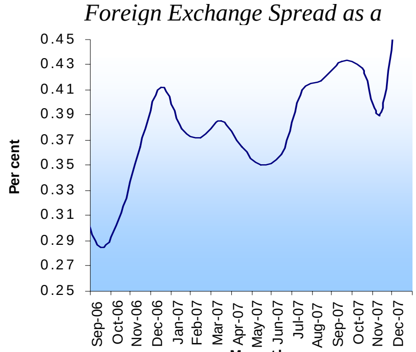
	US$MN			Change Relative To Previous	
	2006	2007			
	Oct-Dec	Jul-Sep	Oct-Dec	Qtr	yr
Net Current Inflows	-627.1	-669.9	-663.4	6.5	-36.3
Current Inflows	967.7	1016.8	1101.0	84.2	133.3
Current Outflows	1594.8	1676.2	1764.4	88.2	169.6
Net Private Capital Inflows	651.9	444.2	579.0	134.8	-72.9
Balance	24.9	-225.6	-84.4	62.6	-3.4

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

Table 1.17
Net International Reserves
(US$MN)

Month	Stock	One Month Change	Three Month Change
Dec-06	2317.6	-35.4	-24.4
Jan-07	2288.4	-29.2	-18.0
Feb-07	2185.6	-102.8	-167.4
Mar-07	2329.4	143.8	11.8
Apr-07	2292.4	-37.0	4.0
May-07	2252.2	-40.1	66.6
Jun-07	2238.9	-13.3	-90.5
Jul-07	2146.2	-92.7	-146.2
Aug-07	2067.3	-78.9	-184.9
Sep-07	1916.2	-151.1	-322.7
Oct-07	1924.5	8.3	-221.7
Nov-07	1808.5	-116.0	-258.8
Dec-07	1877.7	69.2	-38.5

Figure 1.19
Foreign Exchange Spread as a



The depreciation in October was largely associated with the high levels of Jamaica Dollar liquidity in the market which supported investor's preference for US dollar denominated instruments. This preference reflected uncertainty following the accelerated pace of depreciation in the September 2007 quarter. Uncertainty about whether the Government would replace the US$82.6 million indexed bond, which matured in November, and increased demand from the energy sector also contributed to the volatility in the first two weeks of October.

Demand pressures in the first half of the quarter were also underpinned by increased spending on fuel imports. Higher spending was driven by both an increase in the price of fuel on the international market and the volume of fuel imported (See Box: **Recent Trends in Jamaica's Fuel Consumption**). In response to these significant pressures and to temper inflationary pressures, the Bank offered two special variable rate CD's, Series "F" and Series "G" in November.

Improved market conditions in the second half of the December quarter were largely underpinned by increased net private capital inflows, monetary policy actions of the Bank and to a smaller extent, seasonal demand for Jamaica Dollar currency. The increase in net private capital inflows largely reflected portfolio inflows associated with the purchase of Lascelles de Mercado stocks by investors within the Caribbean region (see **Stock Market**).[5] Improved net private capital inflows also resulted from widening interest rate differentials given the softening of external interest rates in the quarter (See **International Developments**). In this context, there was an estimated fall in the net foreign currency positions of Authorized Dealers to US$141.9 million at end-December, relative to US$165.8 million at end-September.

The Bank estimates that net foreign exchange demand to facilitate current account transactions remained relatively stable compared to the previous quarter. This was attributed to an US$84.2 million increase in foreign exchange inflows, principally associated with higher remittances and earnings from mineral fuel exports, which partially offset the seasonal increase in outflows. Payments increased by an estimated US$88.2 million, largely

[5] The market was informed of a take-over of Lascelles de Mercado by the Trinidadian Manufacturer and Distributor of Alcoholic Beverages, Angostura Ltd., in the final week of November. The offer price per ordinary share unit was significantly above the market price and resulted in increased demand for the stock.

attributed to an expansion in consumer, fuel and non-fuel raw material imports. For the December 2007 quarter as a whole, preliminary balance of payments cash flow estimates indicate that private capital inflows increased to US$579.0 million from US$444.2 million in the preceding quarter relative to a 5-year seasonal average of US$588.6 million and US$651.9 million for the December 2006 quarter (see **table 1.11**). However, this was not sufficient to offset the estimated net outflow of foreign currency of US$663.4 million (See **table 1.11**).

Reflecting the growth in inflows from earners, average per-diem purchases by the system (authorised dealers and cambios) amounted to US$30.5 million over the review quarter, compared with US$27.3 million over the September quarter. Average per diem sales increased to US$29.6 million, relative to US$26.3 million in the previous quarter, reflecting the increase in foreign currency demand. This compares to a US$1.32 million decline in average per diem sales in the similar quarter last year and an average of US$23.3 million over the previous three December quarters.

Given the demand pressures in the market, the Bank's net intervention sales of foreign currency to the market amounted to US$209.0 million. Consequently, the NIR at end-December 2007 was US$ 1 877.7 million, a decline of US$38.5 million below the outturn for end-September 2007.

Box 1: *Recent trends in Jamaica's Fuel Demand*

Introduction

Jamaica's overall fuel bill expanded to US$ 1760.1 million in 2006 (34.7 per cent of total imports) from US$648.1 million in 2000 (21.6 per cent of total imports). While the most significant contributor to this increase was an annual average increase of 21.3 per cent in the price of crude oil over the period, demand for fuel also grew steadily.

Between 2000 and 2006, Jamaica's fuel demand (in volume) grew at an annual average rate of 3.4 per cent, slightly higher than the annual average increase of 3.2 per cent between 1996 and 1999. This growth contributed approximately 30.0 per cent of the average annual increase of the national fuel bill over the period and also contributed to the deterioration in Jamaica's current account deficit to 11.4 per cent of GDP in 2006 from 4.7 per cent of GDP in 2000.

Outside of its contribution to the growth in the fuel bill and the downturn in the current account, the growth in fuel demand is noteworthy in that it suggests insensitivity on the part of Jamaican consumers to oil price increases. The expectation is that, given the size of the increase in prices, there should have been some downturn in the demand for fuel. In this context, the main purpose of this box is to discuss the sources of demand for fuel, the intention being to identify the principal sectors responsible for the aforementioned growth. Some indicators of efficiency are also considered.

Sources of Fuel Supply

Jamaica imports fuel from three main countries: Venezuela, Mexico and Trinidad and Tobago. Since 2001, Jamaica has increasingly imported oil from Ecuador. The petroleum products used in Jamaica are imported by the state-owned Petroleum Corporation of Jamaica and private marketing companies. The PCJ also imports and distributes oil derivatives, approximately 95.0 per cent of which are purchased from Trinidad & Tobago.

Fuel Demand by Sector

A decomposition of fuel demand by type of economic activity suggests that the Jamaican productive sector has been the main source of the increase in fuel volumes. Over the period 2000 - 2006, fuel demand resulting from productive activities grew at an annual average rate of 3.7 per cent, contributing on average 73.0 per cent of the overall growth in volumes (See table 1 & figure 1).

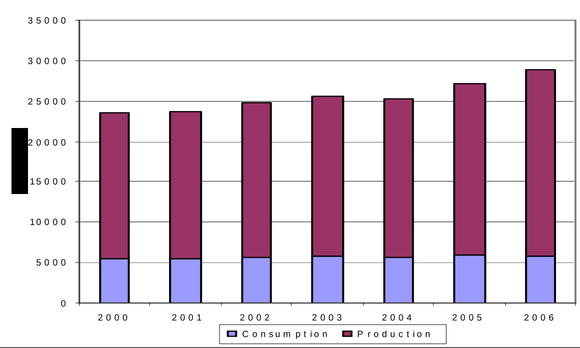
Table 1: Fuel Demand: Contribution to growth in demand by Sector 2000-2006

	Average Share (%)	Average Growth (%)	Average Contribution to Overall Growth (%)
Consumption	**22.2**	**1.4**	**27.0**
o.w. Electricity Generation	9.0	2.3	26.2
Production	**77.8**	**3.7**	**73.0**
o.w. Shipping	3.5	122.2	59.1
Electricity Generation	15.3	3.3	53.9
Other	59.0	1.0	-40.0
Total Volumes	**100**	**3.4**	**100.0**

Sources: *Bank of Jamaica calculations*

The Ministry of Energy

Figure 1
Fuel Demand Trends (2000-2006)



Sources: *Bank of Jamaica calculations*
The Ministry of Energy

The most significant sources of the increased fuel demand for production were electricity generation and shipping. Over the period 2000 - 2006, the volume of fuel purchased by the shipping industry increased at an average rate of 122.2 per cent and contributed approximately 59.1 per cent of the annual growth in overall fuel demand. For the same period, fuel purchased to generate electricity for industrial use increased at an annual average rate of 3.3 per cent and contributed, on average, 53.9 per cent of the growth in overall fuel demand. The growth in fuel demand for shipping was largely associated with a 2005 agreement between Petrojam and a Greek energy and shipping conglomerate to operate a bunkering station at Jamaican ports.[6]

Fuel used for consumption purposes is estimated to have grown at an annual average rate of 1.4 per cent over the review period, contributing, on average, 27.0 per cent of the overall growth in fuel demand.[7] The largest source of this demand growth was residential electricity usage. The demand from this source contributed 26.2 per cent to the overall growth in energy use.

Efficiency Issues

In the context of the growth in fuel demand for productive uses, Jamaica's fuel efficiency deteriorated over the review period. This was evidenced by an increase in the ratio of fuel imports (net of fuel imported for sale to the transhipment industry) to GDP to 15.0 per cent in 2006 from 8.2 per cent in 2000 (See Table 2). Fuel used per capita also increased to 9.7 barrels of oil equivalent (BOE) in 2006 from 9.0 BOE in 2000. This latter indicator was significantly above the average for Latin America and the Caribbean.[8]

Conclusion

The growth in the volume of fuel demanded in Jamaica is largely driven by the activities of the productive sector. Notwithstanding this, Jamaica's efficiency in fuel use appears to be deteriorating and the overall consumption level of the country is relatively high. Revisions to the country's national energy policy are required to improve Jamaica's energy efficiency and curb the country's growing fuel dependency.

Table 2: Energy Use in Jamaica
Selected Indicators

	2000	2001	2002	2003	2004	2005	2006
Fuel import/GDP (%)*	8.2	7.5	7.4	10.0	10.2	12.1	15.0
Per Capita Fuel Consumption (BOE)*	9.0	8.9	9.4	9.6	9.5	9.6	9.7
Fuel prices (% change)	57.5	-14.5	0.5	19.6	33.1	36.2	17
Consumption (BOE) (% Change)	1.4	0.5	4.6	2.9	-0.8	7.3	6.6

**Ratio excludes barrels used in trans shipment*

[6] The company services some of the world's main trading lines as well as cruise vessels. Fuel sold for transhipment purposes is fully financed by external sources and therefore does not significantly impact domestic demand for foreign exchange.

[7] Between 2003 and 2006, the stock of motor cars in Jamaica is estimated to have increased cumulatively by 18.2 per cent.

[8] The Latin American Energy Agency indicates that per capita energy consumption within the region is estimated to have increased to 8.4 BOE in 2006 from 7.9 BOE in 2002.

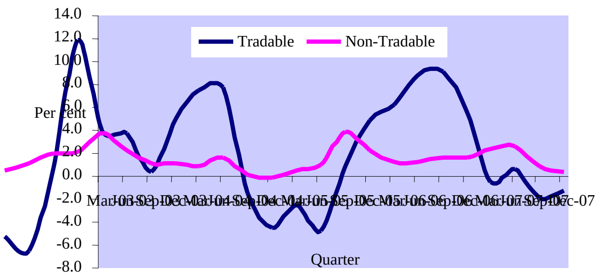
2. Real Sector Developments

Following on the 0.4 per cent growth in the September quarter, economic activity is estimated to have remained weak in the December 2007 quarter. This follows average quarterly growth of 2.1 per cent over the last eight quarters. This outturn was due primarily to the lagged impact on economic activity of Hurricane Dean which passed the Island on 19 August. The situation was further exacerbated by the period of heavy rains in October. Against this background, the tradable sector is estimated to have registered a noticeable contraction mainly reflecting the fall out in mining and agriculture. Further, growth in the non-tradable sector is, estimated to have been below its average trend growth.

The weak performance in economic activity reflected estimated declines in all components of aggregate spending, with the exception of Private Consumption.

Figure 2.1

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



Economic activity remained weak following nine quarters of consistent growth

Aggregate Supply

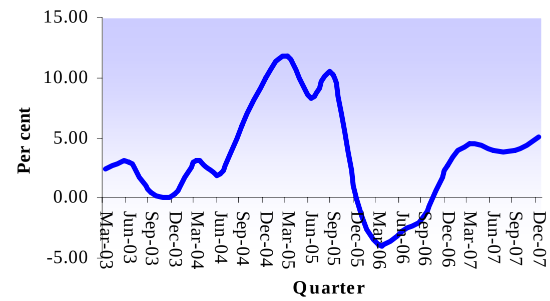
Estimates of real sector performance for the December 2007 quarter indicate that activities remained weak, relative to the corresponding period in 2006. This estimated outturn represents a deceleration in economic growth following an average expansion of 2.1 per cent for the last eight quarters. The economy's performance reflected declines in ***Agriculture***, ***Mining*** and ***Electricity & Water*** arising from reductions in capacity utilization. The weak performance mainly reflected activities within the tradables sector **(see Figure 2.1)**.

Despite the overall outturn in economic activity, bouyant growth emanated from ***Construction & Installation***, ***Distributive Trade***, ***Financing & Insurance*** and Tourism during the review period. The main factor supporting growth in this sectors was higher domestic investment spending, which occurred in a context of a decline in loan rates, which started in the previous quarter. As was the case in the previous quarter, considerable credit was extended to ***Construction & Installation***, ***Distributive Trade*** and Tourism**.**

For the fifth consecutive quarter, ***Construction & Installation*** is estimated to have registered buoyant growth, above its long run trend

Figure 2.2

Growth in value added: Construction& Installation
(12-Month Change)

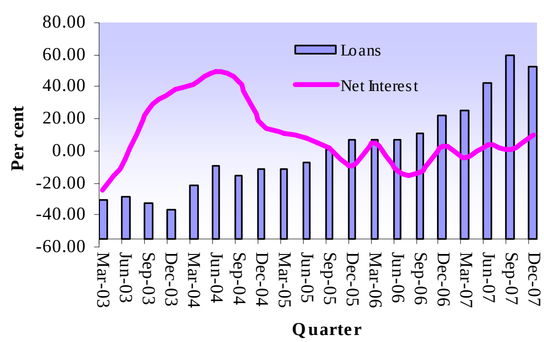


Source: Statin & BOJ

Figure 2.3

Growth in Commercial Banks Net Interest Income & Loan Portfolio

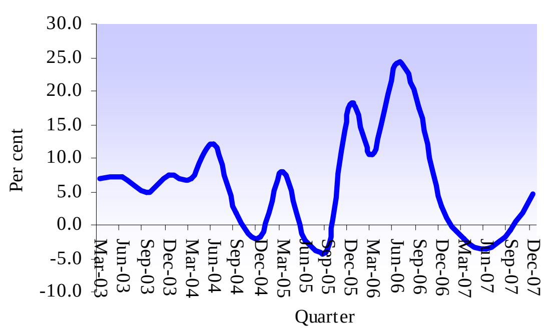
(12-Month Change)



Source: BOJ

Figure 2.4

Total Stopover Visitor Arrivals
(12-Month Change)



Source: Jamaica Tourist Board

growth of 1.4 per cent **(see Figure 2.2)**. Growth within the sector continued to be buoyed by construction of hotels and the North Coast Highway as well as expansion to the telecommunication infrastructure. Construction activity was further enhanced by the Government's road repair programme following damage from Hurricane Dean and the prolonged rains in October 2007. Residential construction also improved during the period as indicated by increases of 109.9 and 17.1 per cent in housing completions and starts, respectively, by the National Housing Trust. The demand created by activities within this sector also facilitated robust growth in ***Distributive Trade***.

Growth for ***Financing and Insurance*** is estimated to have continued to be above its long run trend growth of 1.4 per cent. The expansion in the sector is primarily indicative of increased net interest income in the commercial banking industry due to growth in the institutions' loan portfolio as well as large increases in income from service charges **(see Figure 2.3)**.

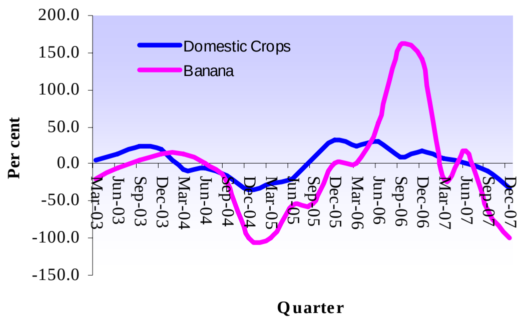
Miscellaneous Services grew for the second consecutive quarter, following two quarters of contraction. The performance in the December quarter was influenced by growth in its main component, *hotel, restaurants & clubs*, reflecting the start of the tourism winter season as well as the opening of a new hotel during the year[9]. In this context, total stop over visitors increased by 5.3 per cent in the review period **(see Figure 2.4)**. On the other hand, there was a reduction in cruise ship passengers reflecting normalization when compared with the significant growth in the December 2006 quarter when cruise ships were diverted from Cancun to Jamaica. Further, some cancellation of cruise ship calls occurred in the review quarter due to bad weather conditions.

The overall performance in the economy was significantly dampened by the contraction estimated in two tradable sectors, namely ***Agriculture, Forestry & Fishing*** and ***Mining***. ***Agriculture Forestry & Fishing*** is estimated to have recorded its second consecutive quarter of decline in the review period. This large contraction is attributed to the lagged impact of Hurricane Dean on long-term crops. In addition the continuous heavy rains experienced in October 2007 damaged

[9] Iberostar added an additional 366 rooms.

Figure 2.5

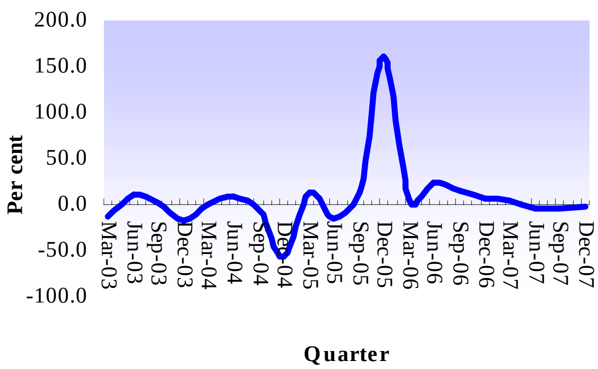
Domestic Crop Production and Banana Export
(12-Month Change)



Source: Ministry of Agriculture & BOJ Estimates

Figure 2.6

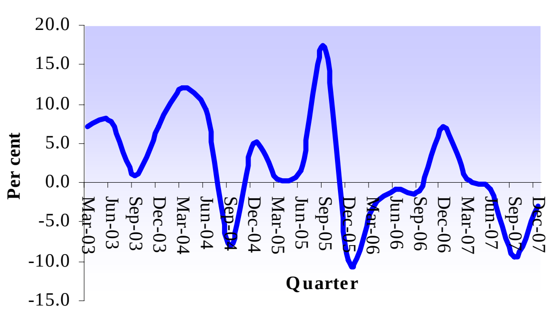
Trends in Crude Bauxite Production
(12-Month Change)



Source: Jamaica Bauxite Institute

Figure 2.7

Trends in Alumina Production
(12-Month Change)



Source: Jamaica Bauxite Institute

short-term crops that would have been recovering from the hurricane. Against this background, there was sustained damage to domestic agriculture, in particular, fruits, vegetables and yams, which declined by 48.9 per cent, 31.6 per cent and 31.6 per cent, respectively. Further, there was impairment of farming infrastructure, including farm roads, farm buildings and irrigation facilities. As such, output per hectare declined to 13.3 tonnes in the review period compared to 13.3 tonnes in the December 2006 quarter. Within export agriculture, the banana crop was obliterated, while the sugar cane, coffee and cocoa crops sustained significant damage **(see Figure 2.5)**.

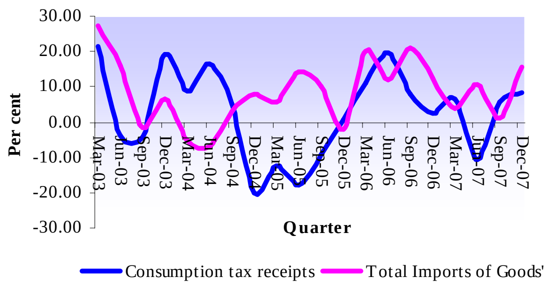
Mining & Quarrying continued to be affected by reduced capacity utilization associated with the passing of Hurricane Dean. Output was lower in the review quarter due mainly to the partial shutdown of production at one alumina plant during the first half of the review period arising from damage to its sea port in August by Hurricane Dean. Against this background, total bauxite and alumina production declined by 4.1 per cent and 2.9 per cent, respectively, relative to the similar period in 2006 **(see Figures 2.6 & 2.7)**.

Within the non-tradable sector, ***Electricity & Water*** is estimated to have recorded its second consecutive period of decline since the December 2004 quarter. Following Hurricane Dean, the Island's main power company transmission equipment was significantly damaged and as such electricity supply was limited to a segment of the company's market. Consequently, capacity utilization declined to 90.3 per cent from 91.4 per cent recorded for the similar quarter in 2006. In this context, total electricity generation in the industry declined by 1.9 per cent, relative to the December 2006 quarter.

Transport, Storage & Communication is estimated to have declined, albeit, marginally within the review period, following robust growth of 3.6 per cent recorded over the last two years. The fallout during the December 2007 quarter reflected estimated contractions in both air and water transport, which outweighed the growth in the communication sub-sector. Total domestic cargo and the number of ship calls to all ports are estimated to have declined by 2.4 per cent and 8.2 per cent, respectively, relative to the December 2006 quarter. The decline in ship

Figure 2.8

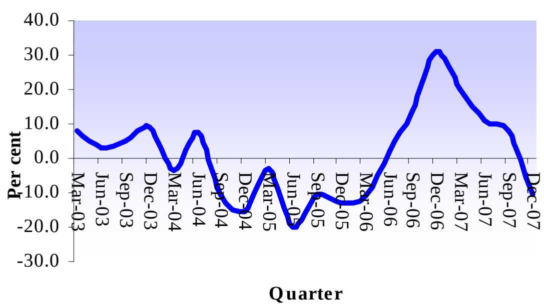
Private consumption Spending Indicators (12-Month change)



Source: MOF & BOJ Estimates

Figure 2.9

Public Sector Wages (12-Month change)



Source: MOF

calls was linked to adverse weather conditions which prevented cruise ships from docking at the major ports.

Aggregate Demand

Indicators of aggregate demand for the December 2007 quarter suggest weak spending, relative to the comparable period of 2006. This reflected a moderate increase in ***Private Consumption*** and reductions in ***Gross Fixed Capital Formation***, ***Public Consumption*** and ***Net External Demand***.

Expansion in ***Private Consumption*** during the review period was inferred from real increases of 8.3 per cent and 15.6 per cent in consumption tax receipts and total imports of goods and services, respectively (see **Figure 2.8)**. This growth was also reflected in an estimated increase of 11.2 per cent in credit card receivables in the period. Additionally, the estimate was consistent with the Jamaica Conference Board quarterly survey of consumer confidence, which indicated an improvement of 11.7 per cent for the review period, relative to the similar period in 2006. The increase in consumer confidence was reflective of consumers' expectations of increased income and a favourable economic environment.

During the quarter, capital goods imports and foreign direct investment declined, pointing to an overall contraction in ***Gross Fixed Capital Formation***. The fall out reflected normalisation over the corresponding period in 2006, following significant investment activities in the mining industry.

Following six consecutive quarters of growth, ***Public Consumption*** is estimated to have contracted over the period relative to the December 2006 quarter. The contraction in public spending is attributed to the reduction in real public sector wages paid over the review period. The decline in real wages principally reflected a higher inflation outturn in the review period, relative to the outturn in the December 2006 quarter (see **Figure 2.9)**.

Estimates of ***Net External Demand*** signalled a deterioration during the review period, when compared to the corresponding period of 2006. This decline was influenced by lower exports of goods (in particular, bauxite, banana and coffee due to the fallout in output caused by Hurricane Dean) and large increases in imports. The main stimuli for the estimated growth in imports were fuel, consumer goods and raw materials which outweighed the reduction in capital goods.

Summary

The performance of the economy in the December 2007 quarter was primarily related to the lagged effect of Hurricane Dean as well as a prolonged period of rainfall during the review period. Nevertheless, in an environment of declining cost of capital and positive investors' confidence in the prior quarters, domestic investment spending remained robust. Although the economy's output declined below its potential level, inflationary pressures were not curtailed in the review quarter due primarily to the significant fallout in agriculture production and increases in oil prices.

3. International Developments

External influences on the Jamaican economy in the December 2007 quarter, were mixed. International commodity prices increased during the review period, primarily reflecting higher oil and agricultural raw material prices. In this context, Jamaica's terms of trade (TOT) deteriorated for the third consecutive quarter. However, the softening in external interest rates improved the attractiveness of Jamaica sovereign bonds.

Interest rates were adjusted in several advanced economies. For example, the Federal Reserve (Fed) in the United States of America (U.S.A.) lowered its official interest rates due to expectations of a slowdown in economic growth. Economic conditions in the U.S. reflected the impact of the general tightening of credit conditions in the international financial markets, which was triggered by the ongoing crisis in the U.S. subprime mortgage market. Notwithstanding increased uncertainty in international markets, there was a general decline in the yields on emerging market bonds, including Government of Jamaica (GOJ) sovereigns.

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

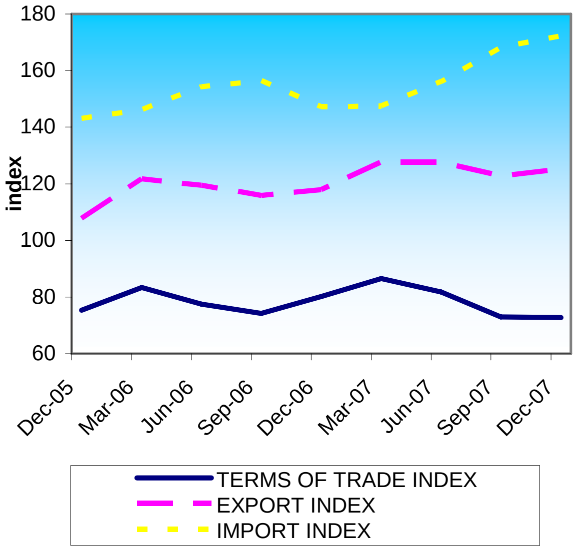
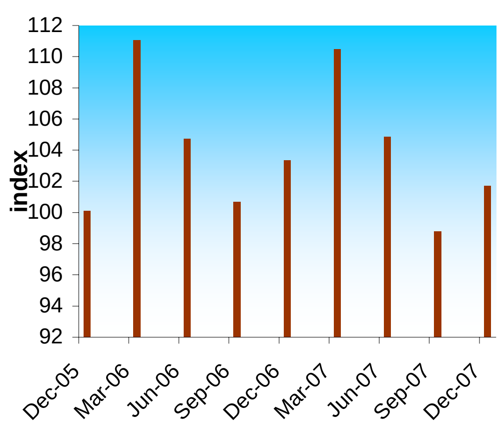


Figure 3.2
Implicit Tourism Price Index
Dec 05 to Dec 07
(quarterly average)



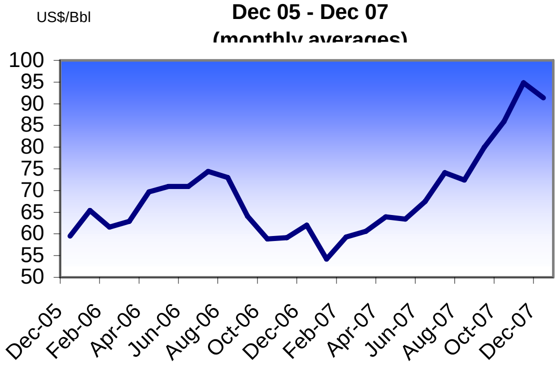
Terms of Trade

Jamaica's TOT index deteriorated by an estimated 7.8 per cent during the December 2007 quarter, relative to the preceding quarter (see **Figure 3.1**).[10] The movement in the index during the review period reflected a 10.6 per cent increase in the Import Price Index (IPI), partially offset by an increase of 1.9 per cent in the Export Price Index (EPI). The movement in the IPI reflected respective increases of 20.2 per cent and 9.1 per cent in the price of crude oil and agricultural raw material prices. The increase in the EPI was attributable to a 2.3 per cent seasonal rise in the Tourism Implicit Price Index (TIPI), which was partially offset by a decline of 0.8 per cent in alumina prices (see **Figure 3.2**).[11]

Crude oil prices rose to an average of US$90.68 per barrel for the December 2007 quarter, representing the largest 3-month increase since the March 2003 quarter (see **Figure 3.3**). This increase primarily reflected

[10] 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.
[11] The Tourism Implicit Price Index measures the ratio of the average tourist expenditure to their average length of stay.

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



supply concerns given the decline in U.S. crude oil inventories by an average of 8.1 per cent over the quarter. The increase in prices was exaceberated by geopolitical tensions in Pakistan, between U.S and Iran, Turkey and in Nigeria. The increase in crude oil prices was also influenced by the continued weakening of the U.S. dollar against the currencies of its major trading partners.

The rise in agricultural raw material prices during the review quarter was largely related to respective increases of 17.9 per cent and 16.6 per cent in the prices of hard red winter (HRW) and soft red winter (SRW) wheat. The movement in wheat prices reflected the combined effects of a fall in production in Canada, as well as increased demand for the commodity as a feedstock for corn. The higher corn prices arose from increased demand for ethanol as a result of higher crude oil prices. There were also notable increases of 11.5 per cent and 18.5 per cent in the prices of corn and soybeans, respectively. For soybean, the movement in prices reflected the displacement of the crop in the U.S. to make way for more lucrative corn crops, as well as robust demand from Asia.

Table 3.1

Selected Key Interest Rates

Sep 07 – Dec 07

	Sep	Oct	Nov	Dec
USA[a]	4.75	4.75	4.50	4.25
Euro Area[c]	4.00	4.00	4.00	4.00
Canada[b]	4.50	4.50	4.50	4.25
UK[c]	5.75	5.75	5.75	5.50
Japan[d]	0.50	0.50	0.50	0.50

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

Monetary Policy

Key interest rates among most selected advanced economies were reduced during the review quarter (see **Table 3.1**). In the U.S, the Fed reduced their target interest rate by 50 basis points (bps) over the period to end December at 4.25 per cent. Similarly, both the Bank of England (BoE) and Bank of Canada (BoC) reduced their benchmark interest rates by 25 bps during December. The adjustments in interest rates were in response to the threat of slowing economic growth stemming from the tightening of credit conditions in the international capital markets triggered by the fallout in the U.S. subprime market.

The European Central Bank (ECB) and the Bank of Japan (BoJ), however, kept their official interest rates unchanged at 4.00 per cent and 0.50 per cent, respectively. The ECB's decision was influenced by concerns about rising inflation pressures, which were counterbalanced by the downside risks to economic growth arising from the tightening of credit market conditions.

In addition to adjustments in interest rates, the Fed and several other central banks injected liquidity into short-term money markets to address the tightness in the credit market. On 12 December, the Fed, in concert

Figure 3.4
US Treasury Yield Curve

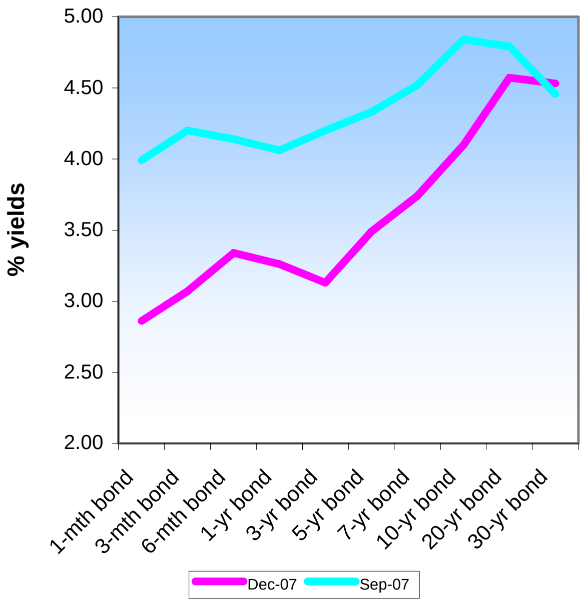
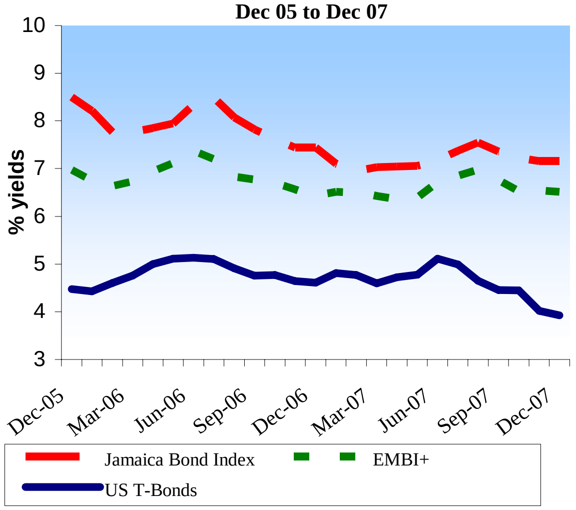


Figure 3.5
Global Bond Yields
Dec 05 to Dec 07



with BoC, BoE, ECB and the Swiss National Bank, established a temporary Term Auction Facility to provide short-term funds to depository institutions against a wide variety of collateral that could be used to secure loans at the discount window.

Private Market Rates

Consistent with the softening in the monetary policy stance of the major central banks, the yields on short-term U.S. Treasury Bills fell by 89.3 bps to average 3.56 per cent for the December 2007 quarter. Similarly, the yields on longer-term U.S. securities declined by 56.8 bps, relative to the previous quarter, to average 4.13 per cent (see **Figure 3.4**). The movement in the U.S. Treasury Bill yields reflected increased demand for relatively safer assets during the subprime crisis, as well as investors' perception of a continued reduction in the Fed funds rate. The U.S. London Inter-bank Offer Rate (LIBOR) declined by 52 bps, reflecting the impact of frequent bouts of liquidity injection by the major central banks during the review quarter.

Emerging Market Bonds

Yields on emerging market bonds, as measured by the JP Morgan Emerging Market Bond Index Plus (EMBI+), fell by 12.0 bps to 6.51 per cent, relative to the end of the previous quarter. Similarly, the yields on GOJ US-dollar and GOJ Euro-denominated sovereign bonds declined by 20.0 bps and 11.0 bps, respectively. The movement in the yields of these bonds reflected market sentiments that emerging market bonds were not affected by the tightening of credit conditions in the international financial market.

Foreign Exchange Market

The US dollar depreciated against all selected major currencies during the review period. Against the Canadian dollar, the Dollar depreciated by 6.4 per cent reflecting a declining terms of trade, principally associated with higher oil prices. Additionally, the expectations of decreased interest differentials also placed downward pressure on the U.S. dollar. Similarly, the Dollar depreciated by 5.4 per cent and 1.1 per cent against the Euro, and British pound, respectively, reflecting market expectations of monetary loosening by the Fed. The U.S. dollar also depreciated against the Japanese Yen by 4.1 per cent, as a result of the unwinding of carry trade positions as liquidity conditions tightened.

4. Inflation

Figure 4.1
Quarterly Inflation Rate

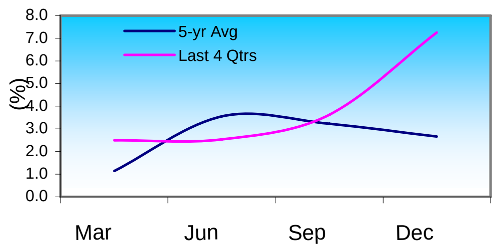


Figure 4.2
Inflation
(12 Month Pt-to-Pt & Quarterly Rates)

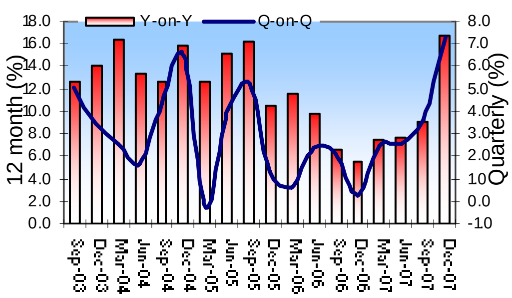
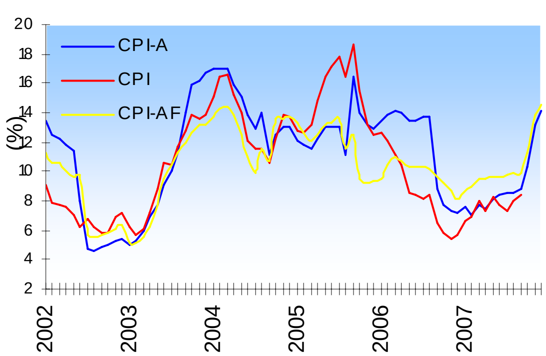


Figure 4.3
Selected Measures of Inflation



Headline inflation was 7.3 per cent for the December 2007 quarter, relative to 3.6 per cent for the preceding quarter. Inflation for the quarter was above the average of 2.7 per cent for the previous five December quarters and significantly above the 0.9 per cent for the December 2006 quarter. The higher inflation in the review quarter was influenced by supply shocks to agricultural prices from the extensive rainfall during the quarter and the impact of Hurricane Dean. Record high prices for international commodities such as crude oil and grains were also of importance in the quarter.

Underlying inflation as measured by the CPI excluding agriculture and energy (CPI-AF) was 5.8 per cent, twice the outturn in the previous quarter and also higher than the rate in the December 2006 quarter.

Trends in Price Indices

The new[12] All Jamaica Consumer Price Index increased by 7.3 per cent in the December 2007 quarter. The outturn for the quarter exceeded the average increase of 2.7 per cent for the December quarters of the last 5 years (see **Figure 4.1**). Inflation was 1.4 per cent in October, 3.2 per cent in November and 2.5 per cent in December.

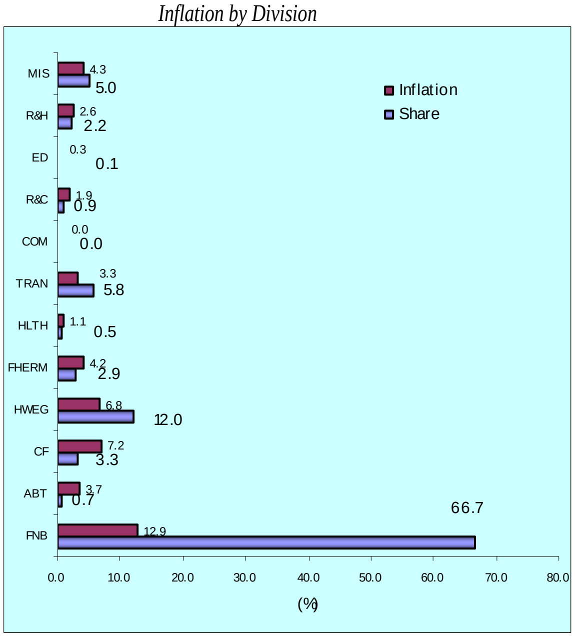
Inflation for the calendar year was 16.8 per cent, relative to 5.5 per cent in the previous year. For the fiscal year to December, inflation was 14.0 per cent compared to 4.8 per cent in the comparable period in FY2006/07. Most of the inflation in the quarter emanated from changes in food prices, leading to *Food & Non-Alcoholic Beverages* contributing 66.7 per cent to inflation. Energy costs were also significant, with *Housing, Water, Electricity Gas & Other Fuels* contributing 12.0 per cent to inflation in the review period.

Underlying Inflation

The increasing trend in core inflation which started in the September quarter continued into the December quarter. Underlying or core inflation as measured by the CPI-AF, rose to 5.8 per cent for the quarter. This was above the outturn for the previous quarter and more than four times that recorded in the December 2006 quarter. This trend points towards increases in core durables, components of core expected to last more than

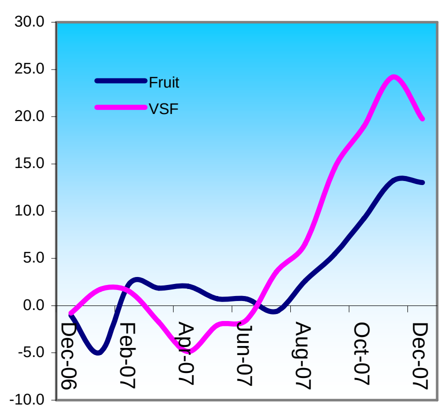
[12] A revised CPI was introduced in September 2007with a base period of December 2006.

Figure 4.4
Inflation by Division



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

Figure 4.5
Quarterly Changes in Vegetables & Starchy Foods (VSF) and Fruit Indices



3 years, and services, which reflected increased exchange rate pass-through. Similarly, the CPI excluding agriculture (CPI-A), increased to 5.9 per cent in the review quarter, from 2.8 per in the September quarter. The calendar year measure of the CPI-A was 15.1 per cent, compared to a 7.2 per cent outturn in the previous year. The CPI-AF 12-month measure was 15.6 per cent relative to the 8.1 per cent recorded for 2006. The trimmed-mean measure of core inflation increased by 4.0 per cent in the quarter, relative to an increase of 1.9 per cent in the previous quarter and a 0.2 per cent increase in the December 2006 quarter. Annual point-to-point trimmed-mean inflation was 9.4 per cent compared to 3.8 per cent recorded at the end of 2006.

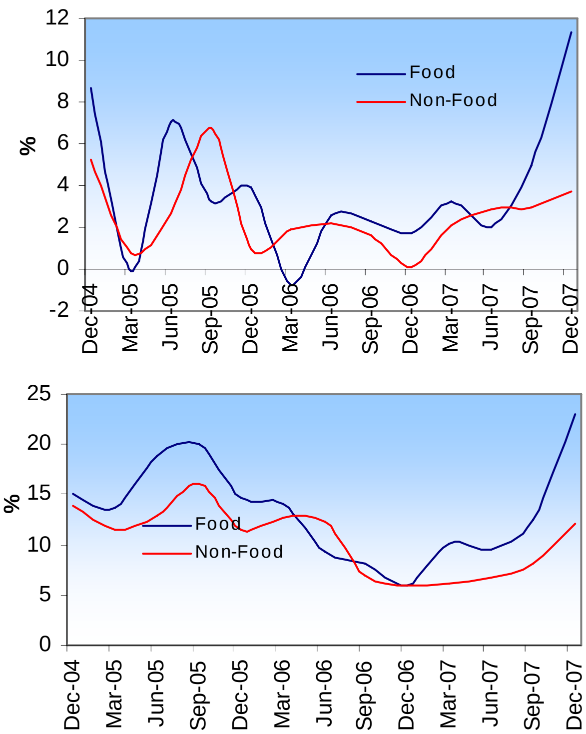
Main Inflationary Factors

The main contributors to inflation in the review quarter were domestic supply shortages for agricultural produce, higher international grain prices as well as lagged and contemporaneous pass-through of increases in energy costs. The impact of these factors was exacerbated by the depreciation in the Jamaica Dollar vis-à-vis the United States dollar in the prior quarter as well as in the early part of the review quarter. These shocks also occurred in a period when seasonal demand would have been a significant factor.

Domestic Supply Conditions

Consequent on damage occasioned by the passage of Hurricane Dean in August as well as a prolonged period of rainfall in October, the supply of domestic agricultural commodities contracted for a second consecutive quarter (See **Real Sector**). As a result, *Vegetables & Starchy Foods* rose by 23.6 per cent during the December quarter. This was the strongest inflationary impulse in the quarter. This movement compares to the average for the last five December quarters of an increase of 9.1 per cent. This quarterly movement also exceeded the net movement in the sub-division for the first three quarters of the calendar year. The increase in *Vegetables & Starchy Foods* was also largely responsible for the movement in **Food & Non-Alcoholic Beverages** contributing more than a third of the division's inflation. However, significant movements also occurred in *Bread & Cereals* and *Meat*. Consequently, **Food & Non-Alcoholic Beverages** increased by 12.9 per cent and contributed 66.7 per cent to overall inflation (see **Figure 4.4**).

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



Import Price Index (IPI) and Inflation

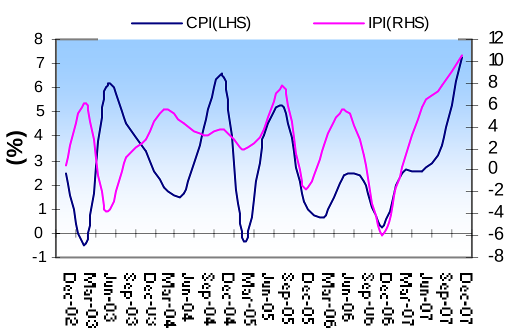
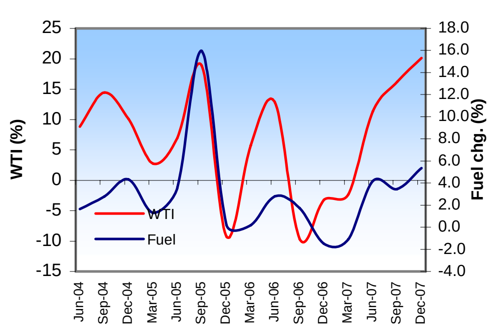


Figure 4.8
Quarterly Chg. in Fuel Index & WTI



Imported Inflation

Imported inflation, as measured by changes in the Bank's Import Price Index (IPI), was 10.6 per cent for the December quarter. This followed an increase of 7.8 per cent for the September 2007 quarter and a 5.9 per cent decrease in the December 2006 quarter (see **Figure 4.7**). One of the key commodity prices influencing the movement in the Index was that of the benchmark West Texas Intermediate crude oil. Its average price rose by 20.1 per cent in the December quarter following a 16.2 per cent increase in the previous quarter (see **International Developments**). These movements prompted increases in the energy-related components of the domestic CPI basket. There were increases in electricity rates, the cost of household fuels such as kerosene and liquid petroleum gas (LPG) and the price of petrol and lubricants. Consequently, the Fuel Index expanded by 5.3 per cent, following a 3.5 per cent increase in the previous quarter (see **Figure 4.8**). Residential electricity rates increased by 9.3 per cent during the quarter, a result of a sharp 14.5 per cent expansion in fuel charges and 2.2 per cent depreciation in the billing exchange rate. Largely as a result of these factors, **Housing, Water, Electricity, Gas & Other Fuels** and **Transport** increased by 6.8 per cent and 3.3 per cent contributing 12.0 per cent and 5.8 per cent, respectively, to inflation during the quarter.

Domestic prices in the review quarter were also influenced by lagged and contemporaneous increases in the international prices of food raw material such as wheat. The average price of US Hard and Soft Red Winter wheat increased by 33.6 per cent and 43.0 per cent, respectively, in the September quarter followed by increases of 24.4 per cent and 21.9 per cent, respectively, in the December quarter. During the review quarter, the domestic cost of flour increased by more than 40.0 per cent and affected *Bread & Cereals*, a key class in **Food**. The movement in the price of commodities in this group also reflected the impact of the higher energy cost on processing and transportation. Consequently, *Bread & Cereals* increased by 20.0 per cent and contributed 16.9 per cent to the quarter's inflation.

In the context of the multiplicity of food-related shocks, the Bank's Quarterly Food Index rose by 11.3 per cent relative to a 4.9 per cent increase in the September quarter and 1.7 per cent in the December 2006 quarter (see **Figures 4.6a & b**). This is the highest increase registered since the measure has been monitored.

Figure 4.9
Durables and Services Inflation

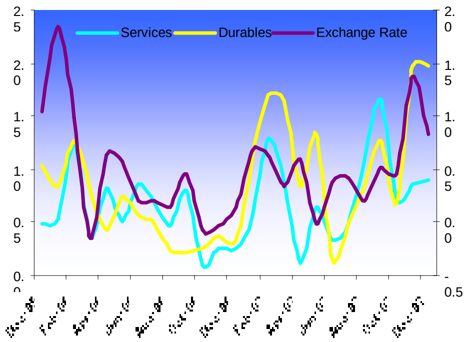


Figure 4.10
Trends in Wages of Key Sectors
(Average earning per week)

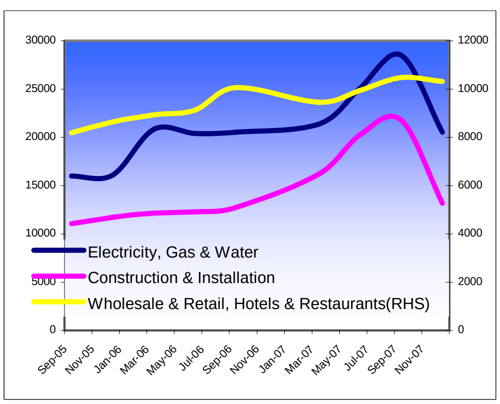
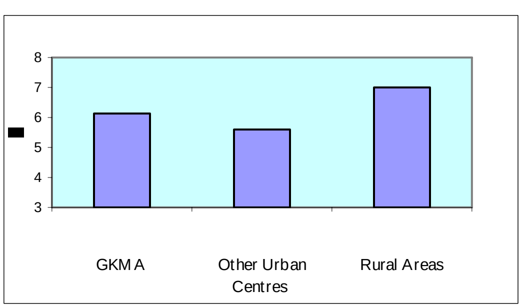


Figure 4.11
Geographical Distribution of Inflation



Additionally, the rising cost of energy and food affected other divisions of the CPI, primarily, **Restaurants & Hotels**, where there was an increase of 2.6 per cent for the quarter. This contributed 2.2 per cent of the overall inflation in the quarter.

Exchange Rate Pass-through

Lagged impulses from the exchange rate movement, which exacerbated other shocks, was a factor in the inflation out-turn for the quarter. The exchange rate depreciated by 2.6 per cent in the September quarter. This depreciation was relative to 1.1 per cent in the June quarter and was particularly noticeable in durables and services (**Figure 4.9**). Heavily energy-intensive personal care services and products which are largely imported reflected strong price movements in the review quarter. As a consequence, there was an increase of 4.3 per cent in **Miscellaneous Goods & Services,** which contributed 5.0 per cent to the quarter's inflation.

Wage costs may have also been an additional underlying factor driving inflation in the December quarter. In the preceding quarter there were sharp movements in the wages paid to employees in the electricity, construction and distributive sectors (see **Figure 4.10**).

Regional Inflation

The indices of the Greater Kingston Metropolitan Area (GKMA) and Other Urban Centres (OUC) recorded inflation of 7.1 per cent and 6.2 per cent, respectively, while the index for the Rural Areas showed7.9 per cent (**Figure 4.11**). This disparity primarily reflected sharper increases in the quarter for *Meat*, *Bread & Cereals* and *Vegetables & Starchy Foods* in the Rural Areas. For *Meat*, the index in the Rural Areas increased by 13.4 per cent while movements of 8.5 per cent and 5.9 per cent were recorded for the GKMA and OUC, respectively. Similarly, for *Vegetables & Starchy Foods* the Rural Areas index rose by25.1 per cent compared to respective increases of 24.5 per cent and 18.9 per cent in the indices of the GKMA and the OUC.

BOX 2: *Trends in Inflation: 2003 to Present*

Following an episode of very high inflation in the late 1980s and early 1990s, the monetary authorities in 1995 adopted a strict anti-inflation policy, the objective of which was to reduce inflation to a single-digit. This was pursued using a monetary targeting framework and involved the daily management of the Bank's balance sheet and coordination of liquidity management with the cash flow of the Government. This concerted action resulted in six unbroken years of single-digit inflation from 1997 to 2002[13] with inflation averaging 7.6 per cent over the period (**Figure 1**). However, since 2003, the trend of single-digit inflation was reversed. This box reviews the factors that have led to deviations from single digit inflation.

Inflation: 2003-2006

In 2003, inflation rose to 14.1 per cent from 7.0 per cent in 2002[14]. The main influences were domestic exchange rate movements, the impact of rising international commodity prices, Government revenue measures and administered price adjustments.

The weighted average selling rate of the Jamaica Dollar vis-à-vis the US dollar declined by 15.9 per cent in 2003 compared to 7.0 per cent in 2002. As a consequence, annual durables inflation increased from 4.4 per cent in 2002 to 7.9 per cent in 2003. There were also adjustments in the cost of public transportation and the National Minimum Wage. The bus fare adjustment was one of the most influential price developments in 2003 and was the main factor underpinning the *Transport* division's contribution of 24.8 per cent to inflation. In addition, the benchmark West Texas Intermediate (WTI) crude oil price rose by 10.8 per cent to US$31.00 per barrel in 2003 from US$26.00 per barrel the previous year. Consequently, *Housing, Water, Electricity, Gas & Other Fuels* increased by 22.2 per cent and contributed 19.5 per cent of the year's inflation (see Table 1).

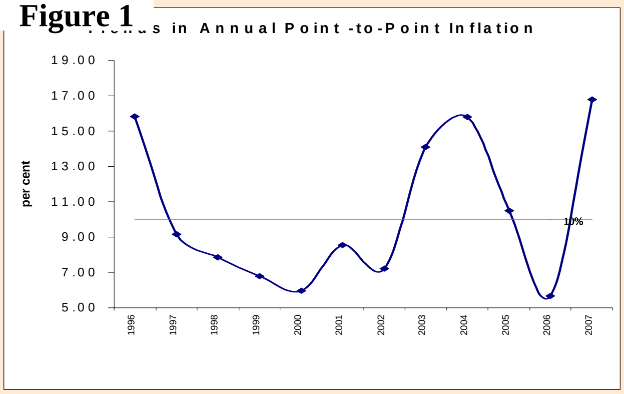
[13] There were seven consecutive years of single-digit inflation from FY1996/97 to FY2002/03.
[14] For consistency, the historical inflation rates were recast in the new classification applicable to the Revised CPI 2007.

Inflation accelerated to 15.8 per cent in 2004. The main influence on inflation was higher prices for agricultural commodities caused by Hurricane Ivan, which exacerbated the customary summer shortages of agricultural produce. As a consequence, the chief impetus to prices emanated from the agricultural components of the CPI. *Food & Non-Alcoholic Beverages* increased by 21.7 per cent and accounted for 52.5 per cent of the year's inflation. Within this division, *Vegetables & Starchy Foods* increased by 37.5 per cent and contributed 16.6 per cent of inflation.

There was also a sharp increase in the average price of WTI crude oil of 34.8 per cent in 2004. Accordingly, the prices of energy-related items of the basket such as utilities and fuel moved sharply upwards with the result that *Housing, Water, Electricity, Gas & Other Fuels* increased by 21.2 per cent, contributing 17.6 per cent to overall inflation.

Inflation moderated in 2005 to 10.5 per cent. This moderation was largely due to recovery in agriculture. However, there were significant administered price adjustments and international crude oil price movements in the year. With regard to the former, the cost of public transportation was increased by approximately 33.6 per cent while oil prices rose 36.2 per cent to approximately US$56.47 per barrel, relative to US$41.45 per barrel in 2004. As a consequence, *Transport* increased by 23.5 per cent and contributed 27.9 per cent to inflation for the year. Household fuels also reflected strong increases with the *Housing, Water, Electricity, Gas & Other Fuels* division increasing by 17.4 per cent and contributing 20.6 per cent to overall inflation. Another significant inflationary factor was an increase in beef prices, which rose by nearly 50.0 per cent during the year. This sharp movement was due to a disjuncture between supply and demand, which had been affected by long-term decline in the cattle industry, and rising demand, particularly from the tourism sector.

Figure 1



In the face of these shocks, the Bank tightened its monetary policy stance. In doing so it limited monetary growth in line with the nominal growth in GDP. At various points, the Bank further tightened policy in response to emerging underlying pressures, while being cognizant of the fiscal and monetary implications.

Inflation fell sharply in 2006, to 5.7 per cent, as a result of a number of favourable factors. These were, strong expansion in agricultural supply, relative stability in the exchange rate and modest increases in oil prices with sharp corrections in the latter part of the year.

Current Context

In the December 2007 quarter, prices rose at the fastest pace in more than eleven years. This resulted in a calendar year inflation rate of 16.8 per cent, the highest annual rate since 1995. This sharp rise in inflation was due to a confluence of adverse developments. Of prime importance was the passage of Hurricane Dean, a Category 5 hurricane, in August which damaged some agricultural crops. Further damage to agriculture ensued in subsequent weeks, as persistent rainfall wreaked devastation on low-lying and root crops. The combined effect was evidenced in sharp declines in the output of fruit (-86.5 per cent) and vegetables (-33.7 per cent) over the September and December quarters[15]. Of note, the production of plantain declined by 72.9 per cent in the December quarter. As a consequence, *Vegetables & Starchy Foods* increased by 37.1 per cent and was the predominant class in terms of its contribution to inflation for the calendar year (**Table 1**).

Increasing international commodity prices also contributed significantly to inflation in the year. In particular, crude oil prices breached new thresholds in 2007, chiefly spurred by tension in the Middle East, conflict in Nigeria, the increased activity of speculators and strong demand from China and India. The benchmark WTI crude oil price rose by 9.3 per cent in 2007, to average US$72.30 per barrel from US$66.09 per barrel in 2006. However, prices rose 35.1 per cent between June and December 2007. At the end of the year oil prices hovered just below US$100.00 per barrel and briefly broke through that level shortly after. Consequently, *Housing, Water, Electricity, Gas & Other Fuels* increased by 21.0 per cent and contributed 15.9 per cent to the year's inflation.

Other commodities such as wheat and corn were also affected by the developments in crude oil prices as well as by adverse weather in key growing areas. Wheat and corn prices reached record levels, increasing by 40.8 per cent and 34.7 per cent, respectively, over the year. This was reflected in the *Bread & Cereals* and *Meat* classes, which increased by 30.9 per cent and 23.7 per cent, respectively, with respective contributions of 11.2 per cent and 10.8 per cent.

There was also increasing exchange rate instability in 2007, which would have further compounded the adverse developments in commodity prices. For the year, the exchange rate depreciated by 6.2 per cent with nearly half (46.8 per cent) of this slippage occurring in the last 4 months of the year.

Policy Response

The Government has recently announced a price support programme which entails subsidies as well as liberalization in the import regime applicable to some basic commodities. The impact of these measures will be closely monitored by the Consumer Affairs Commission to ensure compliance by merchants. The conservative monetary policy stance will be maintained as the Central Bank attempts to maintain stability and contain underlying inflation.

[15] Rural Agricultural Development Authority (RADA) and Ministry of Agriculture data.

Table 1

Contribution to Inflation: Calendar Year 2003 - 2007										
	2003		2004		2005		2006		2007	
Divisions/Groups	Inflation %	Cont'bn %	Inflation %	Cont'bn %	Inflation %	Cont'bn %	Inflation %	Cont'bn %	Inflation %	Cont'bn %
Food & Non-Alcoholic Beverages	**10.9**	**28.0**	**21.7**	**52.5**	**6.8**	**23.6**	**5.8**	**38.5**	**24.7**	**55.0**
o/w: Bread & Cereals	18.9	7.9	8.8	3.5	10.4	5.9	9.8	10.6	30.9	11.2
Meat	11.0	5.8	12.3	6.1	22.2	15.7	12.0	16.3	23.7	10.8
Vegetables & Starchy Foods	-4.7	-2.2	37.5	16.6	8.4	5.3	-8.9	-10.9	37.1	15.1
Alcoholic Beverages & Tobacco	**36.3**	**3.4**	**3.7**	**0.3**	**18.6**	**2.4**	**4.8**	**1.2**	**16.0**	**1.3**
Clothing & Footwear	**6.3**	**1.4**	**4.3**	**0.9**	**7.1**	**2.2**	**5.6**	**3.3**	**15.4**	**3.0**
Housing, Water, Electricity, Gas	**22.2**	**19.5**	**21.2**	**17.6**	**17.4**	**20.6**	**8.1**	**18.3**	**21.0**	**15.9**
o/w: Electricity, Gas & Other Fuels	27.2	13.3	22.6	10.4	19.0	12.5	9.3	11.8	25.3	10.7
Furnishings, Household Equipment& Routine Maintenance	**11.1**	**3.8**	**5.9**	**1.9**	**12.7**	**5.8**	**11.0**	**9.7**	**17.0**	**5.0**
Health	**9.4**	**2.1**	**6.6**	**1.4**	**7.7**	**2.3**	**9.9**	**5.8**	**3.4**	**0.7**
Transport	**28.2**	**24.8**	**5.2**	**4.3**	**23.5**	**27.9**	**0.6**	**1.3**	**6.8**	**5.2**
Communication	**2.8**	**0.8**	**37.4**	**9.7**	**0.0**	**0.0**	**0.0**	**0.0**	**2.7**	**0.6**
Recreation & Culture	**11.6**	**2.7**	**9.5**	**2.1**	**4.7**	**1.5**	**6.0**	**3.6**	**9.9**	**2.0**
Education	**15.9**	**2.3**	**8.0**	**1.1**	**15.1**	**3.0**	**7.8**	**3.0**	**6.1**	**0.8**
Restaurants & Hotels	**12.0**	**5.1**	**9.9**	**4.0**	**9.0**	**5.2**	**5.2**	**5.8**	**15.3**	**5.6**
Miscellaneous Goods & Services	**10.7**	**6.1**	**7.9**	**4.3**	**7.2**	**5.6**	**6.4**	**9.5**	**9.8**	**4.9**
All Divisions	**14.1**	**100.0**	**15.8**	**100.0**	**10.5**	**100.0**	**5.5**	**100.0**	**16.8**	**100.0**

5. Economic Outlook and Monetary Policy Perspectives

Table 5.1

Jamaica: Selected Economic Indicators

	Projections for Mar'08 Quarter	*Projections for FY07/08*	*Original Target for FY07/08*
Inflation (% change)	3.0 – 4.0	17.0-18.0	7.0 – 8.0
Base Money (% change)	-9.5	14.0	11.1
NIR End Period (US$MN)	1732.1	1732.1	2216.1
GDP (12-mth % chg.)	+ve	1.0 – 1.5	2.0 – 3.0

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

Economic activity is expected to expand in the March 2008 quarter relative to the similar period last year while inflation is projected to moderate compared to the December 2007 quarter. The rebound in economic growth is expected to be driven by the goods sector and continued expansion in the services sector. Growth is anticipated to be mainly driven by expansions in Construction & Installation, Mining, Financing & Insurance and Distributive Trade as well as Manufacturing.

Inflation for the March 2008 quarter is expected to be seasonally lower than the previous quarter, within the range of 3.0 per cent to 4.0 per cent. The anticipated moderation in inflation reflects the impact of greater supplies of domestic food crop, Government intervention and a lower exchange rate pass through relative to the December quarter. The main inflationary impulses should emanate from international commodity prices and seasonal price adjustments associated with the beginning of the year. However, the movement in international commodity prices should moderate relative to the previous quarter.

The main policy challenges for the Central Bank during the March 2008 quarter relate to projected strong Jamaica dollar liquidity as well as a rise in inflation expectations.

Outlook - March 2008 Quarter

Economic Activity

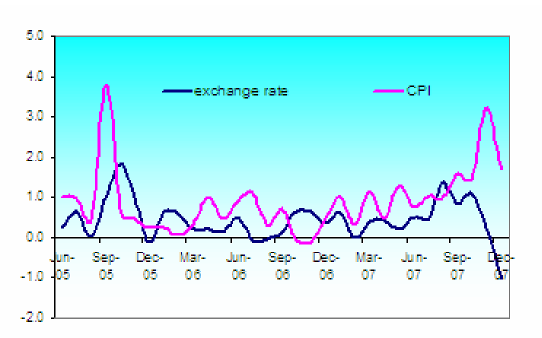
Stronger growth is expected in the March quarter relative to the December 2007 quarter

Real GDP in the March 2008 quarter is expected to strengthen relative to the slow growth recorded over the past two quarters. The higher growth is predicated on the expansion in the goods sector, following declines in the past two quarters, as well as continued growth in the services sector. Expansion in the services sector is anticipated to exceed the average growth over the previous two quarters.

The main drivers of the economic expansion in the March 2008 quarter are expected to be ***Mining***, ***Manufacturing***, ***Construction & Installation*** and ***Distributive Trade***. The anticipated expansion in Mining is predicated on

Figure 5.1

Trends in Changes in the Exchange Rate and Headline Inflation



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

projected increase in both alumina and bauxite production relative to the March 2007. An expansion in Manufacturing is anticipated chiefly due to an anticipated rebound in the production of Food and Non-Alcoholic Beverages and greater buoyancy in Metal & Fabricated Metal Products relative to the previous year.

Buoyancy in ***Construction*** is anticipated due to ongoing investment in tourism as well as significant repairs to public infrastructure following damage by persistent rains in the previous quarter. The growth in services is expected from all sub-sectors, particularly ***Basic Services*** and ***Miscellaneous Services***.

Growth in the March 2008 quarter, however, will be tempered by continued decline in ***Agriculture***, albeit at a slower rate when compared to the previous two quarters. Economic growth could also be affected by the less positive outlook of the private sector with respect to future business conditions. Similar to results of the Jamaica Conference Board, the Bank's survey of expectations suggest a decline in present and future business conditions (see **Figure 5.3 – 5.4**). The less positive response was due to a greater number of persons indicating that conditions would remain the same as well as an increase in the share of respondents who thought that conditions would worsen.

It is not expected that the rebound in economic activity will cause any undue inflationary pressure on the economy. While ***Agriculture*** is expected to decline relative to the March 2007 quarter, production in the quarter will reflect an expansion relative to the December 2007 quarter. This should temper the price increases of some domestic agricultural commodities.

Inflation

Headline inflation for the March 2008 quarter is projected in the range of 3.0 per cent to 4.0 per cent, reflecting a sharp moderation relative to the 7.3 per cent in the December 2007 quarter.

The anticipated moderation in inflation reflects the impact of a rebound in supplies of some short term agricultural commodities, lower demand as well as the intervention by Government to lessen the pass through of

Figure 5.2

Inflation Expectations

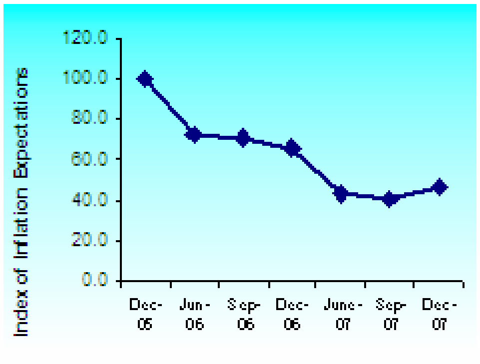


Figure 5.3

Present Business Expectations

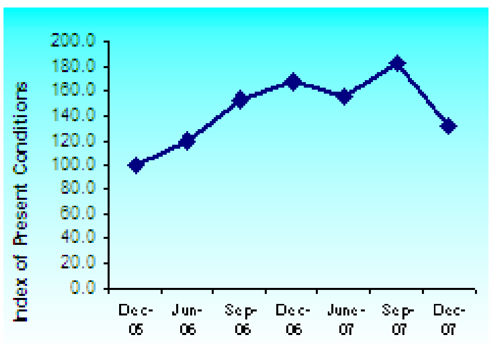
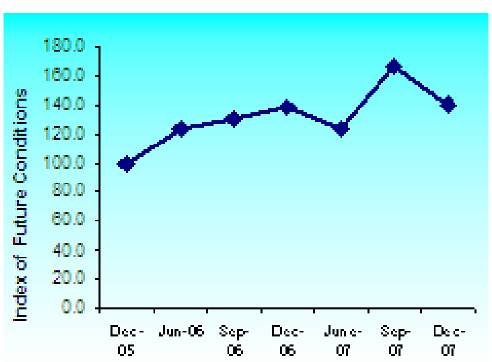


Figure 5.4

Future Business Conditions



international commodity prices to domestic prices. In addition, the exchange rate pass through to prices should moderate. The main inflationary impulses during the March 2008 quarter are expected to emanate from cost push factors such as international commodity price movements. There is also the expectation of impulses related to the renewal of various contracts.

The moderation in price increases in the March 2008 quarter should be led by a reversal in the price increases of some vegetables and fruits, as supplies of domestic food crops are expected to improve. The vegetables that are anticipated to reflect noticeable increases in supply are tomatoes, cabbage, lettuce and carrots. The reduction in these prices could have an impact on the prices of other food items such as processed food and meals away from home. However, the prices of some staples such as bananas and tubers, could remain relatively high due to their longer production cycle.

Another area of countervailing impulses is anticipated from discounts on consumer durables, as merchants attempt to eliminate their post holiday stock in the March 2008 quarter.

The lagged effects of the depreciation in the exchange rate in the December quarter are also expected to influence inflation in the March 2008 quarter. However, the transmission of the exchange rate movement to prices should be moderated given the slowdown in the rate of depreciation. The pace of depreciation in the exchange rate in the December quarter slowed to 0.3 per cent relative to 2.6 per cent in the September quarter and lower than the seasonal average of 2.0 per cent[16]. In the March 2008 quarter, it is expected that the foreign exchange market should reflect greater stability given the projected increase in inflows, particularly from tourism. Additionally, the recent policy action by the Bank to increase interest rates on its OMO instruments and the rate cuts by the U.S. Federal Reserves should engender a greater demand for local as against foreign assets. This will assist in enhancing the net supply of foreign exchange and hence lower the pressure on the exchange rate and inflation.

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

Figure 5.5

Consumer Price Index

(annual point to point change)

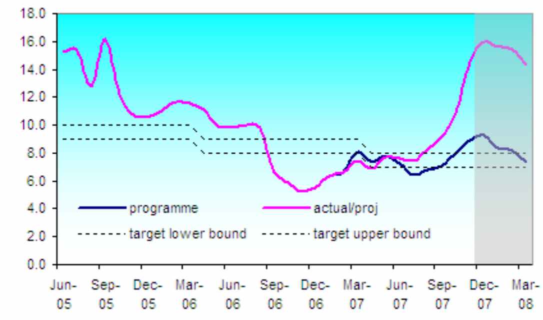
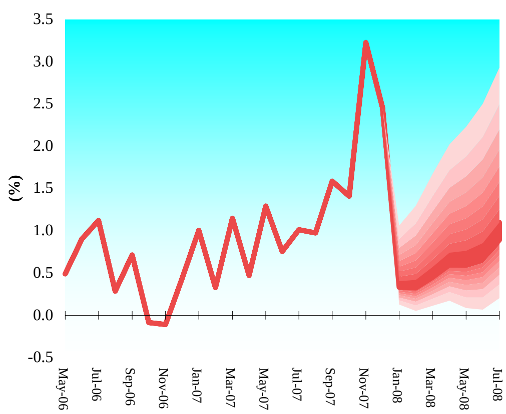


Figure 5.6

Monthly Inflation Forecasts



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

The main inflationary impetus in the March 2008 quarter will emanate from continued cost push pressures arising from upward movements in the prices of crude oil and grains. However, these cost push pressures should moderate, as the movements in international oil and grains prices are expected to slow. The anticipated moderation, in part, reflects a projected lower world demand based on the signs of a downturn in the US economy.

The Bank projects that the average price of crude oil for the March 2008 quarter, as measured by the West Texas Intermediate (WTI), will increase by approximately 6.7 per cent, relative to the December 2007 quarter. This is a reduction in the rate of increase when compared with the 20.2 per cent rise in crude oil price in the December quarter relative to the September 2007 quarter. The Bank expects that the crude oil price movement in the March quarter will be influenced mainly by geopolitical tensions in Nigeria and the routine closure of U.S. refineries in preparation for the summer driving season. Second round and the lagged effects of past price movements are also expected.

For the March 2008 quarter, the price of wheat is expected to rise by 18.2 per cent, relative to the previous quarter, as adverse weather in the Midwest U.S. during the winter months is expected to negatively affect planting. The price of corn, which could also be affected by the adverse weather in the U.S., is projected to rise by 8.8 per cent. Decline in global inventory levels and strong demand from Asia are the primary factors influencing a projected increase of 12.9 per cent in the price of rice.

To cushion the effect of these developments on the consumers, the Government has implemented a $500 million assistance package to moderate consumer prices. The thrust of this initiative is mainly directed at food for which grains are a major input.

Other factors that should influence inflation in the March 2008 quarter include the seasonal upward adjustments in contract prices, particularly for services. Traditionally, the beginning of the calendar year is associated with price adjustments related to contract renewals such as rent, insurance, club fees and other costs. Additional impulses are expected to arise from adjustments to admissions to cinemas, plays and other recreation services.

A possible recession in the US economy poses a risk to the domestic economy

The main upside risks to the inflation projection for the March 2008 quarter are greater than anticipated increases in oil and grains prices and a possible hike in the cost of transportation and water. Supply conditions in the market for crude oil are still uncertain due in part to geopolitical tensions. On the demand side, there is the risk that adverse weather could precipitate added demand. In addition, oil prices could also be influenced by speculative actions associated with the waning value of the US dollar relative to other major currencies. With respect to grain prices, adverse weather as well as the heightened demand for bio fuel poses a risk (see **Figure 5.6**). Another area of risk for the economy arises from the impending threat of a recession in the US economy. The impact of this development could affect Jamaica's exports and hence the flows into the foreign exchange market.

Monetary Policy

In the absence of any significant financing needs by Government, liquidity could pose a challenge to monetary policy

The main challenges for the Central Bank in the March 2008 quarter are expected to emanate from the management of the significant liquidity inflows as well as rising inflation expectations.

Liquidity conditions in the March quarter are expected to be buoyed by seasonal currency reflows as well as OMO maturities. This is in a context where Government's demand for financing is not expected to be excessive. In this context, the Bank has targeted a decline of 9.5 per cent in the monetary base relative to the 19.8 per cent increase in the December 2007 quarter. To achieve this target the Bank has increased the interest rates on all its OMO instruments by 1.0 percentage point in January 2008. The Bank is prepared to complement the recent increase in interest rates with other measures should the liquidity threaten the stability in the foreign exchange market.

Additionally, an emerging issue to note is a rise in inflation expectations. The Bank's survey indicates that for the first time in seven quarters there has been an upturn in inflation expectations (see **Figures 5.2).** Notwithstanding the marginal increase, the rise in inflation expectations could have an adverse effect on wages and price-setting.

BOX 3: *The EU-CARIFORUM Economic Partnership Agreement: Possible Medium Term Implications for Jamaica*

Background to the EPA

The EU-CARIFORUM Economic Partnership Agreement (EPA) is the reciprocal trade pact stipulated in the Cotonou Agreement to replace the trade component of Lomé IV.[17] The initiation of discussions towards African Caribbean Pacific-European Union (ACP-EU) regional EPAs was spurred by the establishment of the World Trade Organization (WTO) in 1994, a guiding principle of which was that countries should generally not discriminate against each other in trade. Preferences under the Cotonou Agreement were extended by special exemption from the WTO and were scheduled to be terminated on 31 December 2007. The impending expiration of the waiver therefore prompted the establishment of an EPA compatible with the rules of non-discrimination.

Negotiations towards the establishment of EPAs took place in four phases between April 2004 and December 2007. On 16 December 2007, CARIFORUM became the first sub-group of the ACP states to secure an agreement with the EU covering goods, services, investment and trade related issues such as innovation and intellectual property.[18]

Terms of the EPA

Under the EPA, all CARIFORUM goods, with the temporary exception of sugar and rice, are entitled to duty-free and quota-free access to the European Union as of 1 January 2008. In exchange, CARIFORUM countries will liberalize 87.0 per cent of current tariff lines (78.7 per cent of the value of imports). Tariffs on different groups of products (referred to as baskets) will be reduced over 5, 10, 15, 20 and 25 years with a three-year moratorium for all baskets. The moratorium means that the reduction of tariffs on EU products entering CARIFORUM will begin in the fourth year following the signing of the agreement. Other Duties and Charges (ODCs) will be liberalized over a ten-year period with a seven-year moratorium.

For sugar exports, the Sugar Protocol will continue to hold.[19] However, the CARIFORUM quota was increased by 60 000 tonnes for the period up to September 2009. With regard to rice exports, CARIFORUM rice exporting countries will be given quotas of 187 000 and 250 000 tonnes for 2008 and 2009, respectively. Thereafter, rice will be sold to the EU on a duty-free, quota-free basis.[20]

As it relates to services, the EU has granted market access (in respect of Modes 1-3) for more than 90.0 per cent of its sectors.[21] In return, CARIFORUM has committed to liberalizing between 65.0 per cent and 75.0 per cent of its service sectors (in respect of Modes 1-3), with the Dominican Republic opening more than 90.0 per cent. Public utilities and some sensitive sectors in both regions will not be liberalized. There is limited temporary entry (Mode 4) coverage for contractual service suppliers and independent professionals (IPs). CARIFORUM investors will get national treatment and most favoured nation treatment in EU markets and vice versa.

There are some limitations in respect of Mode 4, market access. While the EU has granted market access for employees of Caribbean firms in 29 sectors, each employee's stay in a particular European country should not exceed 90 days per calendar year. The EU has also liberalized 11 sectors for

17 The Cotonou Agreement is a partnership pact between the EU and the ACP countries. The Cotonou Agreement replaced the Lomé Convention which had been the basis for ACP-EU development cooperation since 1975. Under the agreement, ACP countries are granted preferential, non-reciprocal access to EU markets

18 CARIFORUM is the abbreviation for Caribbean Forum which is comprised of CARICOM member states and the Dominican Republic.

19 This means that sugar exports up to a specified quota will continue to be granted duty free access to the EU market until end-2009, while guaranteed prices will continue to be reduced cumulatively by 36.0 per cent over the three year period ending in 2009.

20 The proposed quotas for 2008 and 2009 represent increases of 29.0 per cent and 72.0 per cent, respectively. The tariff on rice was €65 per tonne.

21 The General Agreement on Trade Services (GATS) stipulates four ways in which a service can be supplied (modes): (1) cross border supply, (2) consumption abroad, (3) commercial presence and (4) presence of natural persons. Cross-border supply covers the flow of services from the territory of one Member into the territory of another Member. Consumption abroad refers to the freedom with which Residents are able to purchase services in the territory of another country. Commercial presence speaks to the freedom of foreign service suppliers to establish, operate and expand a commercial presence in a member's territory such as a branch, a subsidiary or a wholly owned subsidiary. Presence of natural persons refers to the opportunities offered to foreign service suppliers for the entry and temporary residence in a member country to supply a service.

temporary entry by IPs or self employed persons. Although there are conditions (economic needs tests) in some EU states for IPs, there are no limits on the number of service suppliers that can enter the EU market.

Economic Implications of the EPA for Jamaica

With the establishment of the EPA, it is expected that Jamaica's medium term inflation rate will decelerate. The impact on economic growth, balance of payments and the fiscal accounts will, however, depend on the net effects of trade diversion and trade creation.[22]

Theoretically, the reduction in tariffs should facilitate a one-off fall in all affected import prices, including those for raw materials and capital goods. Consequently, inflation should be reduced. The extent of the fall in inflation depends on the share of the consumer price index (CPI) basket that is associated with goods originating from Europe. The effect on prices also depends on the market power of retailers and their willingness to pass on tariff reductions.

Liberalisation may affect growth/the balance of payments (BOP) through two competing channels. In the first place, given that the reduction in tariffs means lower prices for EU goods, growth in imports from that source may be stimulated. The fall in prices and the increased competition that this entails may also force some domestic producers to shut down. The size of the impact on the BOP and GDP growth depends on the level of trade between member countries within the EPA, as well as the degree to which imported goods are substitutes for domestic production.

In terms of the second channel, the formation of the EPA may open new opportunities for domestic suppliers, which will ultimately lead to an increase in exports. This, however, depends on the ability and willingness of domestic producers to penetrate that market.

22 Trade diversion relates to the substitution of imports from countries outside of the Free Trade Area (EPA) to suppliers within the EPA. Trade creation, on the other hand refers to the increased consumption of lower-cost imports from the EPA partner which serves to displace intra regional and local production.

The impact of the EPA on the fiscal accounts depends on the net effect of tariff liberalization on economic growth as well as the size and pace of changes in tariffs. Losses in revenues will be associated with the fall in domestic production (as a result of trade creation) as well as the lower rates on existing imports. Another source of revenue loss is the impact of trade diversion.[23] However, gains in revenues may be associated with the increase in imports in the context of trade creation as well as the supply response of the domestic export sector.

In the context of the foregoing discussion, the medium term economic impact on Jamaica of the EPA is expected to be low. Imports from the EU in FY2006/07 accounted for 8.7 per cent of total imports and 8.1 per cent of overall tax revenue from international trade (see Table 1). Consequently, the effects of tariff liberalisation on import growth and inflation are expected to be minimal.

For the government sector, all revenues associated with EU trade will ultimately be eliminated. In 2007/08 prices, this amounts to approximately J$1.26 billion or 0.16 per cent of GDP. There is, however, the additional potential revenue loss through trade diversion that could amount to more than the loss associated with existing trade.

The challenge for Jamaica will be the exploitation of the economic opportunities that flow from the EPA, which, if sufficiently robust, will offset the negative effects of liberalisation.

Table 1

Trade & Revenue Statistics
FY2006/07

	Imports (US$mn)	Revenue (J$mn)	Implicit Tariff Rate (%)
Total	5 932.84	16 146.3	4.1
EU	513.68	1 314.42	3.9
% of total	8.7	8.1	-

Source: Ministry of Finance

23 Lower tariffs on goods within the EPA may induce domestic importers to switch from suppliers outside the EPA to intra-EPA suppliers. This has the effect of moving the tax base from a relatively high tariff trade to lower tariff trade, leading to a fall in revenue.

Appendices

A. Fiscal Developments: October to December 2007

For the December 2007 quarter, preliminary data suggest a Central Government deficit of $18 705.6 million or 2.4 per cent of GDP, relative to the targeted deficit of $16 030.9 million or 2.1 per cent of GDP. The higher than anticipated deficit was due to above target expenditure, as revenues exceeded budget by 2.8 per cent. The primary surplus was 1.4 per cent of GDP relative to the budgeted primary surplus of 1.8 per cent. Concurrently, the current deficit to GDP ratio of 1.2 per cent exceeded the budgeted current deficit of 0.8 per cent of GDP (see table).

Total expenditure for the review period exceeded budget by $3 503.8 million, due to a 61.8 per cent variance in programmes. All other areas of expenditure were contained. This higher than expected spending on programmes was influenced by expenses associated with the passage of Hurricane Dean, an increase in the rate of pension benefits, payment of tuition fees for students attending secondary schools, as well as health care costs in public hospitals and clinics for all persons 18.0 years and younger. The higher expenditure on programmes was partially offset by containment in wage payments, reflecting a delay in the reclassification of workers in the health sector.

Total revenue was 2.8 per cent above budget for the three-month period to end December 2007. This reflected buoyant inflows from non-tax and tax revenues as well as bauxite levy. All other areas of revenue were below budget. The strong tax revenue outturn for the period reflected greater than expected collection of arrears, while bauxite levy reflected higher than budgeted price being paid for the commodity, as production was low for the period.

For the fiscal year to December 2007, the Government incurred a deficit of $40 437.0 million or 5.2 per cent of GDP, relative to a budgeted deficit of $44 398.6 million or 5.8 per cent of GDP. The outturn reflected an overall containment in expenditure complemented by better than expected revenue inflow.

During the April to December 2007 period, the Government continued to utilize higher than targeted domestic financing, particularly through the issue of securities. For the period, eight of the nineteen instruments issued were variable rate instruments, accounting for 58.7 per cent of the financing raised. While one less variable rate instrument was issued in fiscal year 2006/07, it accounted for 67.4 per cent of financing with a total of twenty-six instruments issued. The weighted average age of new GOJ issues was 5.62 years relative to 9.77 years for the comparable period in fiscal year 2006/07. Of note, duration[24] on Government domestic debt instruments at December 2007 was 1.13 years. For the period, the Government net amortized foreign debt above budget, in a context where project loan receipts were lower than budgeted.

[24] Duration (Macaulay) is the weighted average time to maturity of the cash-flows from a bond.

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

	FY 2007/08 Q3	Budget Q3	Variance	%	FY 2007/08 Q1- Q3	Budget Q1- Q3	Variance	%
Revenue & Grants	**60273.4**	**59444.4**	**829.0**	**1.39**	**174683.1**	**171788.5**	**2894.6**	**1.68**
Revenue	**60238.4**	**58598.2**	**1640.2**	**2.80**	**173026.0**	**169259.9**	**3766.1**	**2.23**
Tax Revenue	55570.5	53171.0	**2399.4**	**4.51**	155387.3	153494.0	**1893.3**	**1.23**
Non-Tax Revenue	3209.6	3884.6	**-675.0**	**-17.38**	9987.3	9935.1	**52.2**	**0.53**
Bauxite Levy	1256.2	942.5	**313.7**	**33.29**	3987.0	3144.6	**842.4**	**26.79**
Capital Revenue	202.2	600.1	**-397.9**	**-66.31**	3664.4	2686.2	**978.2**	**36.42**
Grants	35.0	846.2	**-811.2**	**-95.86**	1657.1	2528.6	**-871.5**	**-34.47**
Expenditure	**78979.0**	**75475.3**	**3503.8**	**4.64**	**215120.1**	**216187.1**	**-1067.0**	**-0.49**
Recurrent Expenditure	**69658.2**	**64359.9**	**5298.4**	**8.23**	**188823.1**	**183066.5**	**5756.6**	**3.14**
Programmes	17915.7	11076.4	**6839.3**	**61.75**	46548.6	38382.9	**8165.7**	**21.27**
Wages & Salaries	21787.5	23265.8	**-1478.3**	**-6.35**	64059.4	65844.1	**-1784.8**	**-2.71**
Interest	29955.1	30017.7	**-62.6**	**-0.21**	78215.1	78839.4	**-624.3**	**-0.79**
Domestic	20655.0	20577.2	**77.8**	**0.38**	53848.5	54593.6	**-745.1**	**-1.36**
Foreign	9300.1	9440.5	**-140.4**	**-1.49**	24366.6	24245.9	**120.8**	**0.50**
Capital Expenditure	9320.8	11115.4	**-1794.6**	**-16.15**	26297.1	33120.6	**-6823.6**	**-20.60**
Non-interest expenditure	**49023.9**	**45457.6**	**3566.3**	**7.85**	**136905.0**	**137347.7**	**-442.6**	**-0.32**
Fiscal Balance	**-18705.6**	**-16030.9**	**-2674.7**	**16.68**	**-40437.0**	**-44398.6**	**3961.6**	**-8.92**
Current Balance	**-9622.0**	**-6361.8**	**-3260.2**	**51.25**	**-19461.4**	**-16492.8**	**-2968.7**	**18.00**
Primary balance	**11249.5**	**13986.8**	**-2737.3**	**-19.57**	**37778.1**	**34440.8**	**3337.3**	**9.69**
BR	**2.4**	**2.1**			**5.2**	**5.8**		
CB	**-1.2**	**-0.8**			**-2.5**	**-2.2**		
PB	**1.4**	**1.8**			**4.8**	**4.5**		
IP	**3.8**	**3.9**			**10.0**	**10.3**		
FSR	**-1.3**	**-1.3**			**-1.2**	**-1.3**		
NIE	**6.3**	**5.9**			**17.5**	**18.0**		

Key

BR = Borrowing Requirement

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

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

IP= Interest Payments as a percent of GDP

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

International Benchmarks

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

FSR closer to zero indicates more stable government finances

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

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

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

B. MONETARY POLICY DEVELOPMENTS

27/04/2000	30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.
01/06/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.
28/07/2000	30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.
11/08/2000	30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.
01/09/2000	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.
18/09/00	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/00	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/00	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.
20/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.
08/03/01	Interest rates on the 365-day, 270-day instruments were reduced to 19.00 per cent, 18.25 per cent per cent respectively.
12/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 percent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.
22/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.
11/04/01	Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.
21/05/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.
01/06/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.
08/06/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 percent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.
25/06/01	Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 percent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.
29/06/01	The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are

	maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.
01/09/01	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.
30/10/01	Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively
28/12/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.
09/01/02	Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.
06/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.
14/02/02	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.
01/03/02	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities were reduced from twenty eight per cent (28%) to twenty seven per cent (27%). Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
01/09/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities were reduced from twenty seven percent (27%) to twenty three percent (23%).
07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
09/09/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.
01/11/02	The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum. The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.
10/01/03	The Bank of Jamaica instituted a "Special Deposit" requirement for Commercial Banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaican Dollar prescribed liabilities.
10/02/03	The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
14/02/03	The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.
19/03/03	Interest rates on Bank of Jamaica's 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.

26/03/03	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/03	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.
24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.
08/07/03	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/04	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/04	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/04	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.
27/02/04	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.
10/03/04	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.
10/03/04	Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.
02/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.60 per cent, 14.70 per cent, 14.80 per cent, 15.10 per cent, 15.60 per cent, 16.50 per cent and 17.40 per cent, respectively.
19/04/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.40 per cent, 14.50 per cent, 14.60 per cent, 14.85 per cent, 15.30 per cent, 16.00 per cent and 16.90 per cent, respectively.
05/05/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.20 per cent, 14.30 per cent, 14.40 per cent, 14.55 per cent, 15.05 per cent, 15.65 per cent and 16.40 per cent, respectively.
03/09/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.00 per cent, 14.10 per cent, 14.20 per cent, 14.35 per cent, 14.80 per cent, 15.35 per cent and 16.00 per cent, respectively.
28/12/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.80 per cent, 13.95 per cent, 14.05 per cent, 14.15 per cent, 14.30 per cent, 15.00 per cent and 15.50 per cent, respectively.
07/02/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 13.50 per cent, 13.65 per cent, 13.75 per cent, 13.85 per cent, 14.00 per cent, 14.50 per cent and 15.00 per cent, respectively.
07/02/05	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing three (3) percent of their prescribed liabilities.
07/03/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.95 per cent, 13.10 per cent, 13.20 per cent, 13.30 per cent, 13.45 per cent, 14.00 per cent and 14.50 per cent, respectively.

	These rate adjustments were underpinned by continued stability in the exchange rate, reflecting buoyant foreign exchange inflows from tourism and remittances. Also, the Bank's net international reserves remained around US$1.8 billion, a level that was more than adequate to underwrite near term stability. In addition, inflation in the first quarter of 2005 was expected to continue on a downward trend engendering a return to single digit inflation in the forthcoming fiscal year.
16/05/05	The Bank of Jamaica reduced the Special Deposit holdings for commercial banks and FIA licensees by two (2) percentage points. Accordingly, these institutions, until further notified, are required to maintain with the Bank of Jamaica as a Special Deposit, an amount wholly in the form of cash, representing one (1) percent of their prescribed liabilities.
26/05/05	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 12.60 per cent, 12.70 per cent, 12.75 per cent, 12.85 per cent, 13.00 per cent, 13.25 per cent and 13.60 per cent, respectively. The adjustments were consistent with the steady improvement in Jamaica's economic environment as reflected in buoyant foreign exchange inflows, stability in the money and foreign exchange markets and a strong international reserve position. Furthermore, the near-term prospects for production and prices continued to be very favourable with strong recovery expected in domestic agriculture as well as ongoing expansion in tourism and mining activities. In addition, it was expected that the normalization of food supplies and continued stability in the foreign exchange market would help to contain inflation during the 2005/2006 fiscal year.
27/05/05	The Bank phased out its reverse repurchase agreements. This facilitated consistency in the accounting treatment (under International Financial Reporting Standards) of open market instruments by holders.
18/04/06	The Bank suspended the acceptance of placements on its open market operations (OMO) instruments with tenors of 270 days and 365 days, until further advised. The OMO instruments, along with corresponding interest rates, that remained on offer were 30-days: 12.6 per cent; 60-days: 12.70 per cent; 90-days: 12.75 per cent; 120-days: 12.85 per cent; and 180-days: 13.00 per cent.
01/05/06	The Bank removed the requirement that deposit-taking institutions must hold some portion of their assets as a Special Deposit with the Central Bank. This requirement was introduced in January 2003 to stabilize the financial markets. The initial deposit requirement was set at 5 per cent of prescribed liabilities and this was reduced to 1 per cent in two steps between February and May 2005. The significant improvement in macroeconomic conditions and the positive outlook for fiscal year 2006/07 allowed for the return of the remaining deposits. The sum due to financial institutions as at 28 April 2006 was J$1 564.1 million.
12/05/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.45 per cent, 12.50 per cent, 12.60 per cent, 12.65 per cent and 12.80 per cent, respectively.
01/09/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 12.15 per cent, 12.2 per cent, 12.30 per cent, 12.35 per cent and 12.50 per cent, respectively.
22/09/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 11.95 per cent, 12.00 per cent, 12.10 per cent, 12.15 per cent and 12.30 per cent, respectively.
22/12/06	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day and 180-day open market instruments were reduced to 11.65 per cent, 11.70 per cent, 11.80 per cent, 11.85 per cent and 12.00 per cent, respectively. This policy action comes against the background of continued robust economic performance and favourable medium term economic outlook.
18/01/07	The Bank of Jamaica offered a Special One-Year Variable rate Instrument to Primary Dealers and Commercial Banks. Interest payments on this instrument will be made quarterly. The initial coupon is 11.80 per cent per annum, the rate being paid on a Bank of Jamaica 90-day Certificate of Deposit. Subsequent interest payments will be calculated at 1.00 percentage point above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The offer was made in the context of the redemption of Government of Jamaica domestic debt instruments on 18 January 2007 which would increase the level of liquidity in the financial system beyond normal requirements. The Bank continues to offer its regular issues of Certificates of Deposits ranging from 30 days to 180 days.
19/06/07	The Bank of Jamaica offered a Special Two-Year Variable rate Instrument to Primary Dealers and Commercial Banks during the period 19-22 June 2007. The instrument will be amortized in two equal tranches on 19 June 2008 and 19 June 2009 with quarterly interest payments. The initial coupon is 11.80 per cent per annum, the rate being paid on a Bank of Jamaica 90-day Certificate of Deposit. Subsequent interest payments will be calculated at 1.25 percentage point above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The offer was made in the context of the exceptionally high level of liquidity of Jamaica Dollar liquidity anticipated during the offer period. The Bank continues to offer its regular issues of Certificates of Deposits ranging from 30 days to 180 days.
04/07/07	As part of its liquidity management strategy, the Bank of Jamaica offered a Special Two-Year Variable Rate Instrument to Primary Dealers and Commercial Banks from 04 July 2007 to 09 July 2007. The instrument, with an initial coupon of 11.98 percent, will be amortized in two equal tranches on 02 January 2009 and 03 July 2009 with quarterly interest payments. Subsequent interest payments will be calculated at 2.00 percentage points above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days

06/09/07	As part of its liquidity management strategy, the Bank of Jamaica offered a Special Two-Year Variable Rate Instrument to Primary Dealers and Commercial Banks commencing from 06 September 2007 to 12 September 2007. The instrument, with an initial coupon of 12.21 percent per annum, will be amortized in two equal tranches on 05 September 2008 and 04 September 2009 with quarterly interest payments. Subsequent interest payments will be calculated at 2.00 percentage points above the Bank of Jamaica 90-day rate applicable at the beginning of each quarterly interest period. The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days.
18/09/07	The Bank of Jamaica accepted subscriptions on a Special One-Year Certificate of Deposit from 18 September 2007 to 26 September 2007. As is customary, this instrument was offered to Primary Dealers and Commercial Banks. Interest on this instrument will be payable semi-annually at a fixed rate of 14.00 per cent per annum. The offer was designed to effectively manage the level of Jamaica Dollar liquidity anticipated in the financial system.
12/10/07	The Bank of Jamaica, as part of its liquidity management strategy, offered a `Special Eighteen-Month Variable Rate Instrument to Primary Dealers and Commercial Banks. The instrument will be amortized in two equal tranches on 11 July 2008 and 14 April 2009 with quarterly interest payments. The initial coupon is 14.34 percent per annum. Subsequent interest payments will be calculated at 1.625 percentage points above the Government of Jamaica 90-day weighted average Treasury Bill yield applicable at the beginning of each quarterly interest period. The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days.
16/11/07	The Bank of Jamaica, as part of its liquidity management strategy, offered a Special Twelve-Month Variable Rate Instrument to Primary Dealers and Commercial Banks. The instrument will be amortized on 14 November 2008 with quarterly interest payments. The initial coupon is 13.46 percent per annum. Subsequent interest payments will be calculated at 1.5 percentage points above the Government of Jamaica 90-day weighted average Treasury Bill yield applicable at the beginning of each quarterly interest period. The Bank of Jamaica will continue to offer its regular issues of Certificates of Deposit ranging from 30 days to 180 days.

LIST OF SUMMARY TABLES

C. Summary Tables

1

INFLATION RATES (%)

	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999			
June	58.3	3.0	1.7
September	59.9	2.7	5.2
December	60.6	1.1	0.9
March	61.0	0.6	2.4
2002/2003			
June	62.0	1.6	1.0
September	63.4	2.3	1.3
December	65.0	2.5	1.5
March	64.7	-0.4	1.6
2003/2004			
June	68.5	5.9	4.7
September	71.5	4.4	3.6
December	73.9	3.4	2.6
March	75.4	2.0	2.7
2004/2005			
June	76.8	1.9	1.5
September	79.0	2.9	3.5
December	84.1	6.4	5.4
March	85.3	1.5	1.3
2005/2006			
June	90.0	5.5	2.7
September	93.8	4.2	2.7
December	94.6	0.9	2.5
March	94.9	0.2	2.7
2006/2007			
June	97.6	2.9	2.1
September	99.9	2.4	2.1
December	100.0	0.1	1.0
March	102.5	2.5	4.0
2007/2008			
June	105.1	2.5	2.3
September	108.3	3.6	2.7
December	116.8	7.3	5.8

2A

COMPONENT CONTRIBUTION TO INFLATION
All Jamaica
October – December 2007

Divisions, Classes and Groups	Weight in CPI	Inflation (%)	Contribution
FOOD & NON-ALCOHOLIC BEVERAGES	**0.3746**	**12.9**	**66.7**
Food	**0.3512**	**13.4**	**65.2**
- Bread and Cereals	0.0610	20.0	16.9
- Meat	0.0766	10.3	11.0
- Fish and Seafood	0.0533	6.2	4.6
- Milk, Cheese and Eggs	0.0311	7.3	3.1
- Oils and Fats	0.0164	11.2	2.5
- Fruit	0.0114	13.5	2.1
- Vegetables and Starchy Foods	0.0686	23.6	22.5
- Sugar, Jam, Honey, Chocolate and Confectionery	0.0172	4.7	1.1
- Food Products n.e.c.	0.0155	6.3	1.4
Non-Alcoholic Beverages	**0.0235**	**4.1**	**1.3**
- Coffee, Tea and Cocoa	0.0066	5.2	0.5
- Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	0.0169	3.7	0.9
ALCOHOLIC BEVERAGES AND TOBACCO	**0.0138**	**3.7**	**0.7**
CLOTHING AND FOOTWEAR	**0.0333**	**7.1**	**3.3**
Clothing	**0.0212**	**4.5**	**1.3**
Footwear	**0.0122**	**11.8**	**2.0**
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	**0.1276**	**6.8**	**12.0**
Rentals for Housing	**0.0301**	**0.3**	**0.1**
Maintenance and Repair of Dwelling	**0.0080**	**4.2**	**0.5**
Water Supply and Miscellaneous Services Related to the Dwelling	**0.0132**	**3.5**	**0.6**
Electricity, Gas and Other Fuels	**0.0712**	**11.1**	**10.9**
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE	0.0493	4.2	2.9
Furniture and Furnishings	**0.0069**	**4.6**	**0.4**
Household Textiles	0.0032	4.2	0.2
Household Appliances	0.0056	5.2	0.4
Glassware, Tableware and Household Utensils	**0.0005**	**1.5**	**0.0**
Tools and Equipment for House and Garden	**0.0015**	**5.5**	**0.1**
Goods and Services for Routine Household Maintenance	**0.0316**	**3.8**	**1.6**
HEALTH	**0.0329**	**1.1**	**0.5**
Medical Products, Appliances and Equipment	0.0122	2.6	0.4
Health Services	0.0207	0.2	0.1
TRANSPORT	**0.1282**	**3.3**	**5.8**
COMMUNICATION	**0.0399**	**0.0**	**0.0**
RECREATION AND CULTURE	**0.0336**	**1.9**	**0.9**
EDUCATION	**0.0214**	**0.3**	**0.1**
RESTAURANTS & ACCOMMODATION SERVICES	**0.0619**	**2.6**	**2.2**
MISCELLANEOUS GOODS AND SERVICES	**0.0837**	**4.3**	**5.0**
ALL DIVISIONS	**1.0000**	**7.3**	**100.0**

2B

REGIONAL INFLATION
October – December 2007

Divisions, Classes and Groups	GKMA	Other Urban Centres	Rural Areas
FOOD & NON-ALCOHOLIC BEVERAGES	**12.8**	**10.7**	**13.6**
Food	**13.4**	**11.2**	14.3
- Bread and Cereals	17.1	18.9	22.0
- Meat	8.5	5.9	13.4
- Fish and Seafood	6.9	4.7	6.3
- Milk, Cheese and Eggs	7.9	6.6	6.9
- Oils and Fats	12.1	9.8	11.4
- Fruit	14.0	15.2	11.4
- Vegetables and Starchy Foods	24.5	18.9	25.1
- Sugar, Jam, Honey, Chocolate and Confectionery	3.6	5.2	5.1
- Food Products n.e.c.	13.5	3.5	3.2
Non-Alcoholic Beverages	**2.7**	**5.8**	**4.1**
- Coffee, Tea and Cocoa	4.0	2.1	6.9
- Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	2.3	7.0	2.8
ALCOHOLIC BEVERAGES AND TOBACCO	**6.2**	**3.2**	**2.5**
CLOTHING AND FOOTWEAR	**11.8**	**2.6**	**6.6**
Clothing	**6.2**	**1.7**	**4.7**
Footwear	**21.9**	**3.9**	**10.0**
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	**5.2**	**6.4**	**8.5**
Rentals for Housing	**0.0**	**0.6**	**0.6**
Maintenance and Repair of Dwelling	**3.7**	**4.3**	**4.5**
Water Supply and Miscellaneous Services Related to the Dwelling	**3.6**	**3.4**	**3.4**
Electricity, Gas and Other Fuels	**11.3**	**10.5**	**11.1**
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE	4.9	2.2	4.5
Furniture and Furnishings	**4.0**	**5.6**	**4.8**
Household Textiles	5.6	2.1	4.4
Household Appliances	7.7	3.4	4.1
Glassware, Tableware and Household Utensils	**0.2**	**3.2**	**1.7**
Tools and Equipment for House and Garden	**2.5**	**1.7**	**6.7**
Goods and Services for Routine Household Maintenance	**4.6**	**1.4**	**4.4**
HEALTH	**0.4**	**1.2**	**1.5**
Medical Products, Appliances and Equipment	0.2	3.0	4.0
Health Services	0.4	0.2	0.2
TRANSPORT	**2.7**	**3.6**	**3.6**
COMMUNICATION	**0.0**	**0.0**	**0.1**
RECREATION AND CULTURE	**2.7**	**2.8**	**0.8**
EDUCATION	**0.2**	**0.2**	**0.4**
RESTAURANTS & ACCOMMODATION SERVICES	**2.7**	**2.5**	**2.5**
MISCELLANEOUS GOODS AND SERVICES	**6.4**	**2.3**	**3.6**
ALL DIVISIONS	**7.2**	**6.1**	**7.9**

3

BANK OF JAMAICA OPERATING TARGETS

	Jun-06	Sept-06	Dec-06	Mar-07	June-07	Sep-07[p]	Dec-07[p]
Net International Reserves (US$)	**2 110.1**	**2 342.0**	**2 317.6**	**2 329.4**	**2 238.9**	**1 916.2**	**1 877.7**
Net International Reserves ($J)	**138 862.3**	**155 486.0**	**153 862.1**	**157 743.9**	**152 579.0**	**133 807.5**	**135 065.1**
- Assets	150 915.4	164 296.7	159 276.9	**176 994.1**	**168 485.2**	**135 690.2**	**137 087.1**
- Liabilities	-12 053.1	- 8 810.7	-5 414.8	**-19 250.2**	**-15 906.2**	**-1882.7**	**-2 022.0**
Net Domestic Assets	**-93 911.6**	**-108 165.8**	**- 95 886.7**	**-105 920.6**	**-99 591.6**	**-79 335.9**	**-69 808.0**
-Net Claims on the Public Sector	98 961.5	93 207.9	94 684.7	**96 326.9**	**91 824.7**	**95 955.4**	**95 010.4**
- Net Credit to Banks	-9 322.7	-9 886.1	-10 303.6	**-10 858.6**	**-10 860.9**	**-11 858.7**	**-12 419.5**
- Open Market Operations	-159 438.0	-166 018.9	-154 757.0	**-165 704.0**	**-150 758.3**	**-129 771.5**	**-114 741.3**
- Other	-24 112.3	-25 468.8	-25 510.8	**-25 684.9**	**-29 797.1**	**-33 661.1**	**-37 657.6**
Monetary Base	**44 950.6**	**47 320.2**	**57 975.5**	**51 823.2**	**52 987.4**	**54 771.7**	**65 257.1**
- Currency Issue *	30 734.4	32 143.4	42 317.3	**35 956.2**	**36 348.3**	**37 446.0**	**47 220.7**
- Cash Reserve	14 093.2	14 907.8	14 821.7	**15 734.2**	**16 177.6**	**16 893.4**	**17 259.8**
- Current Account	123.0	269.0	836.5	**132.8**	**461.5**	**132.3**	**776.6**
% change Monetary Base (F-Y-T-D)	**3.1**	**8.5**	**32.9**	**18.8**	**2.2**	**5.1**	**25.9**

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

4

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

	M1J	M1*	M2J	M2*	M3J	M3*
2004/2005						
June	46 496.4	57 161.6	128 294.6	193 296.0	165 766.6	230 768.0
September	48 959.1	60 090.6	130 416.1	199 673.9	169 273.8	238 532.8
December	55 258.0	67 724.6	141 539.8	211 468.2	182 029.6	251 723.8
March	52 605.9	62 309.4	139 480.6	209 583.2	179 769.4	249 872.0
2005/2006						
June [r]	52 942.5	62 310.9	142 111.3	212 032.6	185 090.2	255 011.5
September	53 089.8	63 212.3	143 430.0	216 480.9	188 253.9	261 304.7
December	62 572.8	72 736.2	155 248.0	228 320.7	200 537.3	273 609.9
March	58 617.7	69 800.3	153 618.0	228 524.9	202 804.6	277 711.5
2006/2007						
June	61 908.1	71 897.4	159 153.6	232 227.4	208 718.0	281 791.8
September	64 668.9	73 233.3	162 466.8	234 331.2	214 812.8	286 677.2
December	78 180.3	87 446.4	181 792.9	256 975.7	235 544.9	310 727.7
March [r]	70 936.5	80 588.3	175 367.2	253 125.3	231 304.0	309 062.2
2006/2007						
June [r]	74 603.1	85 666.8	182 099.9	266 428.9	237 729.8	322 058.8
September [p]	75 563.7	90 053.6	185 371.1	280 698.4	242 607.4	337 934.7
December	89 116.4	105 258.4	202 344.5	299 970.7	262 600.0	360 226.2

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

5

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

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07[r]	Jun-07[p]	Sep-07[p]	Dec-07[p]
M2J	**-1 630.0**	**5 535.6**	**3 313.2**	**19 326.1**	**-6 423.0**	**6 882.8**	**3 271.2**	**16 973.3**
Currency	-3 435.3	1 285.3	966.9	7 333.8	-4 631.3	1 506.1	839.2	7 180.0
Demand Deposits	-519.7	2 005.1	1 793.9	6 177.6	-2 609.9	2 310.5	121.3	6 372.7
Savings Deposits	296.3	2 951.0	1 288.2	4 413.7	917.8	1 826.7	2 798.0	2 038.3
Time Deposits	2 028.7	- 705.8	-735.8	1 401.0	-99.1	1 239.5	-487.3	1 382.3
OTHER DEPOSITS	**3 897.4**	**377.8**	**2 781.5**	**1 406.0**	**2 184.8**	**-302.8**	**1 606.4**	**3 019.3**
TOTAL (M3J)	**2 267.4**	**5 913.4**	**6 094.7**	**20 732.2**	**4 238.2**	**6 580.0**	**4 877.6**	**19 922.6**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07[r]	Jun-07[p]	Sep-07[p]	Dec-07[p]
N.I.R. of B.O.J.	**-605.5**	**2 100.0**	**15 400.2**	**-1 624.0**	**799.4**	**-6 166.4**	**-22 532.7**	**1 257.5**
M&LTFL of B.O.J	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Banking System Credit	**3 235.0**	**3 712.2**	**-3 896.5**	**6 620.4**	**18 440.5**	**12 587.8**	**315.9**	**904.5**
Public Sector	-194.2	276.5	-8 872.8	-2 471.5	**13 835.9**	**6 955.0**	**-6 050.0**	**-4 057.8**
Private Sector	3 429.2	3 435.7	4 976.3	9 091.9	**4 604.6**	**5 632.8**	**6 365.9**	**4 962.3**
Open Market Operations	**-7 551.1**	**-2 080.4**	**- 6580.9**	**11 261.9**	**-10 947.0**	**14 945.8**	**20 986.7**	**15 030.2**
Other	**7 189.0**	**2 181.6**	**1 171.9**	**4 473.8**	**-12 531.1**	**-14 787.2**	**6 107.7**	**2 800.4**
TOTAL	**2 267.4**	**5 913.4**	**6 094.7**	**20 732.2**	**4 238.2**	**6 580.0**	**4 877.6**	**19 922.6**
Memo:								
Foreign Currency Deposits (Private Sector)	**1 834.2**	**-1 833.1**	**-1 209.3**	**3 318.4**	**2 576.8**	**6 570.8**	**10 997.7**	
Foreign Currency Loans (Private Sector)	**715.3**	**2 801.9**	**478.0**	**3 124.4**	**4 124.8**	**1 874.8**	**7 165.6**	

p-preliminary

r-revised

n.a: not available

6A

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

	Fixed Deposits * 3-6 months	Fixed Deposits * 6-12 months	Savings Deposits (Average) r	Lending Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
2002/2003							
June	7.75–13.25	7.75–13.25	9.00	25.92	9.28	18.15	14.68
September	7.75–13.25	7.75–13.25	8.86	26.25	8.98	18.08	13.88
December	7.75–13.25	7.75–13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50-13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50–13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	7.24	25.60	8.68.	19.32	24.08
March	8.50–13.25	8.50-13.50	6.78	25.40	8.47	19.01	17.16
2004/2005							
June	8.50 – 13.25	8.50-13.50	6.61	25.02	8.15	17.75	15.75
September	8.50 - 13.25	8.50-13.50	6.61	24.95	7.99	17.76	8.38
December	3.00 – 14.10	3.50–14.30	6.48	24.89	7.78	17.72	12.95
March	3.00 – 14.10	3.50–14.30	6.36	24.89	7.54	17.35	12.58
2005/2006							
June	3.00–14.10	3.50-14.30	5.52	24.70	7.34	16.43	10.00
September	2.50- 14.10	3.00–14.30	5.48	22.00	7.11	17.41	11.13
December	2.50- 14.10	3.00–14.30	5.48	22.00	7.00	17.32	12.42
March	2.50- 14.10	3.00–14.30	5.30	21.84	7.17	17.54	10.00
2006/2007							
June	2.50- 14.10	3.00–14.30	5.39	22.50	7.17	17.60	9.00
September	2.50- 14.10	3.00–14.30	5.36	21.80	6.88	17.83	9.13
December	2.50- 14.10	3.00–14.30	5.20	21.90	6.60	17.59	8.10
March	2.50- 14.10	3.00–14.30	5.15	22.49	6.94	17.28	7.75
2007/2008							
June	6.80 - 10.95	6.50 - 11.60	5.17	22.49	6.96	17.23.	9.67
September	6.80 - 11.85	6.50 – 12.35	4.88	21.08	6.85.	17.06	10.50
December	6.80 - 11.85	6.50 – 12.35	4.88	20.82	n.a..	n.a..	7.58

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

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	*6-month*	*9-month*	*12-month*
2000/2001				
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		
2004/05				
June	15.04	14.98	15.18	
September	14.41	14.80		16.36
December	14.41	14.94		
March	13.21	13.46	14.00	
2005/2006				
June	12.85	12.88		
September	12.96	13.15		
December	13.34	13.55		
March	13.16	13.18		
2006/2007				
June	12.64	12.82		
September	12.44	12.49		
December	12.26	12.31		
March	11.55	11.65		
2007/2008				
June	11.98	12.13		
September	14.34	14.29		
December	12.89	13.34		

7

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

Tenor of Instruments

End Period	30 days	60 days	90 days	120 days	180 days	270 days	365 days
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95
2004/2005							
June	14.20	14.30	14.40	14.55	15.05	15.65	16.40
September	14.00	14.10	14.20	14.35	14.80	15.35	16.00
December	13.80	13.95	14.05	14.15	14.30	15.00	15.50
March	12.95	13.10	13.20	13.30	13.45	14.00	14.50
2005/2006							
June	12.60	12.70	12.75	12.85	13.00	13.25	13.60
September	12.60	12.70	12.75	12.85	13.00	13.25	13.60
December	12.60	12.70	12.75	12.85	13.00	13.25	13.60
March	12.60	12.70	12.75	12.85	13.00	13.25	13.60
2006/2007							
June*	12.45	12.50	12.60	12.65	12.80	...	...
September	11.95	12.00	12.10	12.15	12.30	...	...
December	11.65	11.70	11.80	11.85	12.00	...	...
March	11.65	11.70	11.80	11.85	12.00	...	...
2007/2008							
June	11.65	11.70	11.80	11.85	12.00	...	...
September	11.65	11.70	11.80	11.85	12.00	...	14.00
December	11.65	11.70	11.80	11.85	12.00	...	13.46

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

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
October – December 2007

Maturity Date		Amount J$M	Applicable Interest Rate [b/]
05 Oct	*FR LRS 2007 AD*	*60.0*	*15.75*
05 Oct	*FR LRS 2007 AD*	*540.0*	*15.75*
30 Oct	*FR Inv. Deb. 2007 Ser. Aw*	*4124.5*	*13.875*
09 Nov	*U$ Ind. Bd. 2007*	*5886.4*	*10.5*
13 Nov	*VR Inv. Bd.2007/2008 Ser. M*	*7483.2*	*13.66*
15 Nov	*FR LRS 2007 AG*	*500.0*	*14.0*
29 Nov	*FR LRS 2007 AH*	*400.0*	*14.0*
30 Nov	*FR LRS 2007 AJ*	*500.0*	*14.875*
30 Nov	*VR LRS 2003-2009 Tr. F*	*200.0*	*13.71*
14 Dec	*VR LRS 2007/2008*	*200.0*	*14.21*
14 Dec	*US$ Den. Prom. Note 2011 Tr. B*	*39.9*	*N.I.B.*
28 Dec	*VR LRS 2004/2008 Tr. H*	*116.1*	*15.79*
28 Dec	*VR LRS 99/2008 (U)*	*2.4*	*14.13*

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

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
October - December 2007

Issue Date	Stock Name	Features	Amount raised J$M
02 October	*VR Inv. Bond 2009/2010 Ser. Aq*	*Tenor of 5 years. Interest rate fixed at 14.29% for first 6 months. Thereafter, quarterly payments of 1.5 percentage points above 3 month WATBY.*	*7 866.6*
31 October	*VR Inv. Bond 2010/2011 Ser. Ar*	*Tenor of3 years. Interest rate fixed at 13.61%. Interest fixed for first six months. Thereafter, semi-annual payments of 1.5 percentage points above 6 month WATBY.*	*5 095.1*
09 November	*FR US$ Ind. Bond 2012*	*Tenor of 5 years. Interest rate fixed at 7.50%. First interest payment made on 09 May, 2008. Thereafter, interest will be paid semi-annually.*	*6 047.5*
15 November	*FR Reg. Bond 2013 Ser. Q*	*Tenor of 6 years. Interest rate fixed at 14.50%. First interest payment will become due and payable after 6 months. Thereafter, interest paid semi-annually.*	*2 846.6*
30 November	*VR Inv. Bond 2013/2014 Ser. As*	*Tenor of 6 years. Interest rate fixed at 13.61%. Interest fixed for first six months. Thereafter, semi-annual payments of 1.5 percentage points above6 month WATBY.*	*4 830.6*

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

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

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
2004/2005	82.1	825.0	87.0	8.2	74.2	272.6	216.3	1 565.4
June	25.4	202.8	47.9	4.3	19.2	77.3	55.8	432.7
September	22.3	173.8	7.7	3.9	20.3	59.9	66.7	354.6
December	8.6	237.8	0.0	0.0	19.6	74.1	58.2	398.3
March	25.8	210.6	31.4	0.0	15.1	61.3	37.0	381.2
2005/2006	100.6	957.5	89.4	7.7	65.3	418.1	170.0	1 808.6
June	22.6	245.2	41.5	2.1	17.2	61.9	48.6	439.1
September	24.8	233.3	3.8	1.3	18.2	106.8	38.9	427.1
December	25.7	231.1	0.0	1.3	9.0	111.6	38.2	416.9
March r	27.5	247.9	44.1	3.0	20.9	137.8	48.4	529.6
2006/2007 r	**115.2**	**1 042.5**	**90.4**	**13.3**	**78.6**	**643.9**	**171.9**	**2 155.8**
June	29.4	258.8	43.0	3.2	25.0	144.8	46.0	550.2
September	29.4	268.7	2.6	3.8	20.1	166.0	44.2	534.8
December	27.0	265.2	0.0	3.4	14.8	161.4	47.2	519.0
March	29.4	296.1	44.8	2.9	18.7	171.7	50.7	614.3
2007/2008								
June	28.5	320.6	42.4	4.5	21.7	162.5	48.4	628.6
September	28.3	262.3	13.1	1.9	22.4	138.7	51.4	518.1

r-revised; p-preliminary

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

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

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

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BALANCE OF PAYMENTS QUARTERLY SUMMARY (US$M)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07r	Jun-07r	Sep-07p
1. Current Account	-275.7	-211.9	-402.2	-280.5	-307.2	-361.9	-551.2
A. Goods Balance	-735.5	-672.9	-821.7	-713.3	-722.3	-766.9	-941.0
Exports (f.o.b.)	529.6	550.2	534.8	519.0	614.3	628.6	518.1
Imports (f.o.b.)	1 265.1	1 223.1	1 356.5	1 232.3	1 336.6	1 395.5	1 459.1
B. Services Balance	198.3	179.1	117.1	133.1	168.9	124.3	90.1
Transportation	-91.3	-99.7	-126.8	-108.7	-116.1	-126.9	-139.7
Travel	425.9	412.4	380.9	377.8	427.1	384.0	365.9
Other Services	-136.3	-133.5	-137.0	-135.7	-142.0	-132.9	-136.1
Goods & Services Balance	-537.2	-493.7	-704.6	-580.2	-553.4	-642.6	-850.8
C. Income	-147.8	-153.7	-141.0	-160.5	-207.4	-209.0	-201.4
Compensation of Employees	7.8	13.6	33.5	41.0	2.1	9.9	32.3
Investment Income	-155.6	-167.4	-174.5	-201.6	-209.5	-218.9	-233.7
D. Current Transfers	409.3	435.6	443.5	460.2	453.6	489.7	501.1
General Government	36.5	36.7	34.9	37.4	35.1	37.3	36.3
Other Sectors	372.8	398.9	408.6	422.8	418.5	452.5	464.8
2. Capital & Financial Account	275.7	211.9	402.2	280.5	307.2	361.9	551.2
A. Capital Account	-2.1	0.9	0.7	0.4	-1.8	-1.4	-1.3
Capital Transfers	-2.1	0.9	0.7	0.4	-1.8	-1.4	-1.3
General Government	0.1	2.1	1.6	0.4	0.2	0.2	0.3
Other Sectors	-2.2	-1.2	-0.9	0.0	-1.9	-1.6	-1.6
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	277.8	211.0	401.4	280.1	309.0	363.3	552.5
Official Investment	-17.0	192.5	176.7	280.8	174.8	174.9	110.5
Private Investment (including net errors & omissions)	285.5	50.5	456.7	-25.1	146.0	98.0	119.4
Reserves	9.3	-31.9	-232.0	24.5	-11.8	90.5	322.7

p-provisional

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
2003/2004	**330.7**	**697.8**	**1.2**	**298.1**	**1 327.8**	**148.2**	**1 476.0**
2004/2005[r]	**360.6**	**809.5**	**1.2**	**327.4**	**1 498.7**	**272.7**	**1 771.4**
June	96.9	185.6	0.3	83.3	366.1	40.2	406.3
September	70.3	186.4	0.3	84.8	341.8	48.3	390.1
December	97.5	216.5	0.3	88.8	403.1	134.1	537.2
March	95.9	221.0	0.3	70.5	387.7	50.1	437.8
2005/2006	**364.9**	**978.6**	**1.2**	**302.5**	**1 647.2**	**162.6**	**1 809.8**
June	74.7	241.6	0.3	77.3	393.9	40.8	434.7
September	90.8	245.3	0.3	75.2	411.6	40.8	452.4
December	96.7	254.0	0.3	77.1	428.1	40.8	468.9
March	102.7	237.7	0.3	72.9	413.6	40.2	453.8
2006/2007	**376.3**	**1 069.8**	**0.9**	**355.8**	**1 802.7**	**170.2**	**1 972.9**
June	93.6	260.1	0.3	81.4	435.4	40.2	475.6
September	94.7	268.6	0.3	88.5	452.1	40.2	492.3
December	94.0	276.2	0.3	98.9	469.4	40.2	509.6
March	94.0	264.9	0.0	87.0	445.9	49.5	495.4
2007/2008							
June	94.5	290.4	0.0	94.2	479.1	49.6	528.7
September	110.9	297.2	0.0	97.7	505.8	49.5	555.3

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

	Gross Foreign Assets (US$MN)	Gross Foreign Liabilities (US$MN)	International Reserves (Net) (US$MN)	*Weeks of Imports* Goods	Goods & Services
2002/2003					
September	1738.6	51.3	1 687.3	29.5	19.5
December	1643.1	46.1	1 597.0	27.9	18.4
March	1382.2	42.5	1 339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6
2004/2005					
June	1630.3	26.2	1604.1	22.5	15.3
September	1 640.7	24.2	1 616.5	23.5	16.0
December	1 881.9	23.4	1 858.5	27.5	18.7
March	1 924.1	22.5	1901.6	27.5	18.8
2005/2006					
June	2 179.3	22.5	2 156.8	28.1	19.5
September	2 243.0	124.0	2 119.0	27.0	19.1
December	2 169.0	81.6	2 087.4	27.0	19.0
March	2 372.9	294.8	2 078.1	28.3	20.1
2006/2007					
June	2 293.2	183.2	2 110.0	22.9	16.7
September	2 474.7	132.7	2 342.0	26.1	18.8
December	2 399.1	81.6	2 317.5	25.2	18.2
March	2 613.6	284.3	2 329.3	27.1	19.5
2007/2008					
June	2 472.3	233.4	2 238.9	24.5	17.7
September	1 943.2	27.0	1 916.2	18.2	13.2
December	1 905.8	28.1	1 877.7	16.8	12.3

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FOREIGN EXCHANGE SELLING RATES (J$ per unit of foreign currency-end of period)	US$	Can$	GB£
2003/2004			
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34
2004/2005			
June	61.22	45.65	102.39
September	61.89	49.05	111.62
December	61.63	50.66	117.92
March	61.54	50.61	115.35
2005/2006			
June	61.84	50.52	110.52
September	62.89	53.61	110.02
December	64.58	54.95	110.40
March	65.50	56.14	112.94
2006/2007			
June	66.03	59.50	120.19
September	66.06	59.10	123.48
December	67.15	57.53	131.53
March	67.80	58.75	132.40
2007/2008			
June	68.58	64.81	136.60
September	70.41	70.38	142.28
December	70.62	71.39	140.32

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PUBLIC SECTOR DOMESTIC SECURITIES
Outstanding Stocks

(J$MN)

End Period	**Local Registered Stocks**	**Treasury Bills**	**Bonds**	**BOJ Open Market Operations Securities**
2003/2004				
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0	184 219.0	108 281.7
March	240 923.0	2 950.0	114 524.1	86 203.8
2004/2005				
June	222 372.2	3 950.0	187 932.0	123 222.1
September	222 522.4	3 750.0	197 847.6.	127 629.3
December	220 290.5	3 750.0	210 300.0.	130 692.1
March	218 412.6	4 050.0	214 565.6	143 854.8
2005/2006				
June	220 529.2	4 050.0	231 749.8	167 485.1
September	220 059.0	3 800.0	244 195.7	168 108.2
December	225 762.8	3 500.0	240 934.0	149 806.5
March	235 632.7	3 800.0	233 643.7	157 357.6
2006/2007				
June	236 668.6	4 200.0	249 662.1	159 438.0
September	231 237.9	4 600.0	285 901.2	166 018.9
December	229 978.3	4 700.0	294 773.2	154 757.0
March	226 631.1	4 200.0	276 155.1	165 704.0
20007/2008				
June	232 363.8	4 200.0	297 276.0	150 758.3
September	226 746.9	4 200.0	315 256.5	129 771.5
December	n.a.	4700.0	n.a.	114 741.3

n.a: Not Available

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	Volume Traded (M.)	Value of Stocks Traded (J$M.)
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7
2004/2005			
June	94 718.4	665.7	9 395.7
September	99 819.8	391.1	4 920.4
December	112 655.5	532.0	7 144.9
March	111 931.2	920.4	18 029.3
2005/2006			
June	110 621.9	866 .8	14 136.8
September	103 332.6	387.8	4 189.6
December	104 510.4	323.1	4 391.0
March	86 896.1	366.5	4 513.8
2006/2007			
June	**85 108.2**	**1 882.6**	**10 627.1**
September	**86 196.0**	**610.4**	**3 441.1**
December	**100 678.0**	**2 823.9**	**18 459.0**
March	**90 595.1**	**556.1**	**7 662.6**
2007/2008			
June	**90 069.9**	**352.4**	**2 762.0**
September	**96 299.8**	**884.7**	**5 013.4**
December	**107 968.0**	**640.3**	**13 609.5**

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

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

	Crude Bauxite	Alumina	Total Bauxite	Sugar	Bananas*
2003/2004	**3 842.4**	**3 956.4**	**13 710.2**	**174.7**	**40.3**
2004/2005	**3 451.4**	**4 028.5**	**13 411.9**	**142.0**	**18.1**
June	1 071.2	1 046.4	3 636.5	60.0	9.9
September	907.1	866.7	3 125.3	3.7	8.2
December	398.5	1 062.6	3 030.0	3.6	0.0
March	1 074.6	1 052.8	3 620.1	74.7	0.0
2005/2006	**4 099.7**	**4 048.7**	**14 167.4**	**151.0**	**18.8**
June	916.0	1 061.8	3 508.3	51.6	4.5
September	1 022.3	1 013.7	3 544.5	0.0	3.6
December	1 035.9	957.4	3 442.6	5.4	3.5
March	1 125.5	1 015.8	3 672.0	94.0	7.2
2006/2007	**4 594.3**	**4 105.2**	**14 905.5**	**144.0**	**30.5**
June	1 136.3	1 053.4	3 779.2	46.3	6.9
September	1 186.5	1 003.9	3 724.6	0.0	9.4
December	1 099.7	1 026.5	3 675.2	2.3	8.4
March	1 171.8	1 021.4	3 726.5	95.4	5.8
2007/2008					
June	1 089.7	1 044.3	3 775.3	59.7	8.1
September	1 123.1	908.9	3 489.6	6.9	3.6
December	1 033.3	966.4	3 597.2	9.4	0.0

** Exports*

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

	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07
Total Gross Domestic Product	3.40	2.64	2.16	2.59	2.83	2.28	1.88	2.21	0.44
Agriculture, Forestry & Fishing	1.56	26.41	19.49	13.46	5.98	8.26	3.50	4.35	-5.01
Export Agriculture	-58.15	106.41	52.77	9.96	100.63	22.13	1.79	24.72	-2.69
Domestic Agriculture, Livestock, Forestry & Fishing	9.82	20.42	12.60	14.09	0.99	6.48	3.98	0.79	-5.25
Mining & Quarrying	16.64	-3.46	-1.96	1.31	0.44	6.70	0.79	-0.65	-8.42
Manufacturing	3.80	-4.35	-1.56	-4.15	-1.13	-2.90	-0.37	3.12	-0.66
Food, Beverages & Tobacco	-1.23	-10.17	-6.72	-9.44	-4.14	-6.19	-0.99	3.34	2.75
Other Manufacturing	9.67	1.91	5.67	3.40	2.04	0.22	0.40	2.86	-4.02
Electricity & Water	10.24	4.43	3.91	1.91	3.14	4.30	4.54	3.93	-4.49
Construction & Installation	10.18	-0.14	-3.84	-2.72	-1.45	2.70	4.50	3.87	4.77
Distributive Trade	0.71	0.86	0.74	0.81	1.76	2.38	2.82	3.15	2.09
Transport, Storage & Communication	0.35	2.75	2.86	4.76	7.30	4.41	3.67	2.44	0.57
Finance & Insurance Services	0.22	2.87	2.30	1.80	1.24	0.73	4.02	5.82	4.36
Real Estate & Business Services	2.11	1.75	2.67	2.27	2.44	2.63	2.58	2.16	2.98
Producers of Government Services	0.99	1.13	0.21	-0.16	-0.27	0.50	0.66	0.67	0.54
Miscellaneous Services Household and Private Non-Profit Institutions	-2.32	9.71	7.66	15.77	12.72	3.59	-0.40	-1.70	2.31
Hotels, Restaurants & Clubs	-4.31	12.80	9.08	19.95	16.46	4.16	-1.11	-2.70	2.38
Less Imputed Bank Service Charge	-3.33	-3.40	-1.61	-0.90	-0.12	5.31	8.50	6.07	5.08

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06r	Mar-07	Jun-07	Sep-07	Dec-07
Assets	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**	**269 763.7**	**269 863.3**	**266 006.6**	**234 449.4**	**233 640.7**
Foreign	139 675.7	154 986.1	150 870.6	163 156.8	160 616.1	176 699.3	169 301.9	136 180.7	134 243.8
Current Account & Foreign Currency Balances	14 090.9	8 942.3	9 263.6	11 987.9	8 670.1	19 617.9	6 382.1	9 199.7	32 665.7
Time Deposits & Securities	122 805.6	138 634.6	134 050.6	143 498.5	144 055.8	149 013.7	154 673.4	118 397.0	92 715.1
Holdings of Special Drawing Rights	0.4	8.8	14.5	17.0	17.9	16.4	14.6	11.4	20.5
Other	2 778.8	7 400.4	7 541.9	7 653.4	7 872.3	8 051.3	8 231.8	8 572.6	8 842.5
Local	100 660.5	104 301.7	105 527.8	107 407.5	109 147.6	93 164.0	96 704.7	98 268.7	99 396.9
Public Sector Securities	79 358.9	84 862.3	87 163.4	86 784.5	86 791.0	68 877.1	68 615.5	73 834.6	73 756.7
Other Assets	24 942.8	20 665.5	20 244.1	22 400.1	22 356.6	24 286.9	28 089.2	24 434.1	25 640.2
Liabilities	**240 336.2**	**259 287.8**	**256 398.4**	**270 564.3**	**269 763.7**	**269 863.3**	**266 006.6**	**234 449.4**	**233 640.7**
Foreign	346.6	361.7	310.3	236.0	295.5	244.8	263.4	259.5	283.0
Local	239 989.8	258 926.1	256 088.1	270 328.3	269 468.2	269 618.4	265 743.2	234 189.9	186 102.6
Currency in Circulation	35 682.7	29 747.7	30 776.5	32 187.6	42 347.3	35 994.1	36 397.1	37 509.0	47 255.1
Deposits	187 435.9	210 909.4	210 670.5	224 521.8	212 883.2	219 603.0	215 715.8	180 700.9	170 289.8
Bankers	26 226.8	26 442.0	25 246.5	26 843.9	27 912.0	28 750.2	29 596.9	31 101.9	32 677.2
Government	3 308.4	6 557.1	11 366.4	20 097.7	19 678.5	5 634.1	17 575.9	14 499.1	18 217.8
Open Market Operations	149 806.5	157 357.6	159 438.0	166 018.9	154 757.0	165 704.0	150 758.3	129 771.5	114 741.3
Other	8 094.2	20 552.7	14 619.6	11 561.3	10 535.7	19 514.7	17 784.7	5 328.4	4 653.5
Allocation of Special Drawing Rights	3 792.7	3 792.7	3 792.7	3 792.7	3 914.0	3 914.0	3 914.0	3 914.0	3 914.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Other Reserves	2 866.2	2 813.1	3 279.5	3 112.0	3 378.8	3 175.6	4 274.0	4 382.3	5 104.0
Other Liabilities	10 188.1	11 639.2	7 544.9	6 690.2	6 920.9	6 907.8	5 418.3	7 659.7	6 770.8

r- revised

E. COMMERCIAL BANKS' BALANCE SHEET

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

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07[P]
Assets	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.4**	**429 969.2**	**439 454.8**	**452 281.0**	**471 604.9**	**490 987.8**
Cash	6 014.4	3 519.6	3 254.3	3 696.4	6 536.5	4 806.7	3 692.7	**3 951.2**	**6 545.7**
Balances with BOJ	57 747.9	66 793.0	70 857.1	75 384.0	72 120.9	68 390.5	60 056.9	**60 014.3**	**69 208.5**
Foreign Assets	75 443.9	83 846.4	90 768.5	90 298.1	96 277.1	93 327.2	105 317.4	**111 578.5**	**109 103.8**
Loans & Advances	132 095.3	131 963.6	140 265.3	143 400.2	153 449.2	164 106.1	172 769.7	**183 898.4**	**195 075.1**
Private Sector	99 544.2	102 911.4	109 273.5	114 369.4	125 512.2	133 626.6	141 770.6	**155 376.6**	**163 411.9**
Public Sector	32 551.1	29 052.2	30 991.8	29 030.8	27 937.0	30 479.5	30 999.1	**28 521.8**	**31 663.2**
Public Sector Securities	56 118.0	56 144.6	54 399.3	55 984.4	58 191.2	61 284.1	66 639.3	**64 883.9**	**63 495.2**
Cheques in the Process of Collection	3 472.3	7 331.1	5 249.7	4 292.2	4 133.5	7 924.7	4 628.2	**5 177.6**	**6 146.8**
Other Assets	36 186.2	36 161.2	35 085.1	38 348.1	39 260.8	39 615.5	39 176.8	**42 101.0**	**41 412.7**
Liabilities	**367 078.0**	**385 759.5**	**399 879.3**	**411 403.4**	**429 969.2**	**439454.8**	**452 281.0**	**471 604.9**	490 987.8
Deposits	246 264.9	255 315.4	262 241.9	268 345.9	282 925.5	281 934.5	292 735.3	308 182.3	321 158.7
Local Currency	148 895.3	157 303.3	161 806.5	165 253.8	175 855.2	179 631.3	182 259.7	188 681.1	
Foreign Currency	97 369.6	98 012.1	100 435.4	103 092.1	107 070.3	102 303.2	110 475.6	119 501.2	
Foreign Liabilities	35 453.1	41 797.7	47 720.5	55 210.6	56 800.0	59 656.7	56 315.8	61 469.2	61 298.0
Discounts & Advances from BOJ	234.5	174.6	173.1	226.1	182.6	168.1	192.3	178.3	33.4
									5 137.5
Loans/Advances from Other Institutions	5 095.7	4 896.5	4 989.0	4 777.0	5 451.4	5 295.1	5 126.0	6 082.5	
									5 5234.0
Cheques in the Process of Payment	2 789.5	3 450.9	3 645.1	3 305.9	3 900.8	4 528.8	4 745.0	4 024.0	
Other Liabilities	77 240.3	80 124.4	81 109.7	79 537.9	80 708.9	87 871.6	93 166.6	91 668.6	97 836.2

P - preliminary ; r - revised

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251
2004/2005				
June	1.3687	1.6100	1.9400	2.4625
September	1.8400	2.0200	2.1963	2.4825
December	2.3890	2.4959	2.7069	3.0109
March	2.6464	2.8335	3.0700	3.4237
2005/2006				
June	3.2498	3.4263	3.6131	3.8135
September	3.7779	3.8981	4.0363	4.1951
December	4.3622	4.4910	4.6662	4.8357
March	4.7604	4.9203	5.0527	5.1867
2006/2007				
June	5.2301	5.3673	5.4759	5.5772
September	5.3300	5.3898	5.4249	5.4101
December	5.3219	5.3600	5.3700	5.3294
March	5.3199	5.3462	5.3132	5.1969
2007/2008				
June	5.3200	5.3600	5.3863	5.4256
September	5.5572	5.5424	5.3916	5.0865
December	5.0172	4.9794	4.8250	4.4227

2

LONDON MONEY RATES – INTERBANK STERLING (End- of-Period)	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2004/2005				
June	4 5/8 – 4 1/2	4 7/8 – 4 3/14	5 1/16 – 4 15/16	5 ¼ - 5 1/8
September	4 27/32-4 23/32	4 15/16-4 13/16	5-4 7/8	5 1/8-5
December	4 7/8 – 4 3/4	4 29/32 – 4 25/32	4 15/16 – 4 13/16	4 31/32 4 27/32
March	4 27/32 – 4 3/4	4 31/32 – 4 7/8	5 1/32 – 4 15/16	5 1/8 – 5 1/32
2005/2006				
June	4 27/32 – 4 11/16	4 25/32 – 4 5/8	4 23/32 – 4 9/16	4 19/32 – 4 13/32
September	4 19/32 – 4 15/32	4 19/32 – 4 15/32	4 9/16-4 7/16	4 7/16 – 4 13/32
December	4 21/32 – 4 17/32	4 5/8 – 4 17/32	4 19/32-4 15/32	4 9/16 – 4 15/32
March	4 19/32 – 4 1/2	4 5/8 – 4 17/32	4 11/16 – 4 9/16	4 25/32 – 4 11/16
2006/2007				
June	4 11/16 – 4 19/32	4 3/4 – 4 21/32	4 13/16 – 4 23/32	5 – 4 29/32
September	4 15/16 – 4 7/8	5 1/16 – 5	5 3/16 – 5 3/32	5 9/32 – 5 7/32
December	5 1/32 – 5 ¼	5 5/16 – 5 7/32	5 13/32 – 5 5/16	5 17/32 – 5 7/16
March	5 15/32 -5 13/32	5 5/8-5 17/32	5 ¾-5 21/32	5 7/8-5 25/32
2007/2008				
June	5 92/100- 5 95/100	6 1/100 - 5 93/100	6 14/100 – 6 6/100	6 33/100 – 6 23/100
September	n.a.	n.a.	n.a.	n.a.
December	6 4/100 – 5 24/25	6 2/100 - 5 47/50	5 97/100 – 5 91/100	5 3/4 – 5 67/100

n.a. : not available

3

PRIME LENDING RATES
(End- of-Period)

	EURO-ZONE	UNITED STATES			UNITED KINGDOM
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Repo rate
2004/2005					
June	2.00	1.25	2.014	4.00	4.50
September	2.00	1.75	2.58	4.75	4.75
December	2.00	2.25	3.15	5.25	4.75
March	2.00	2.75	3.58	5.50	4.75
2005/2006					
June	2.00	3.25	4.01	6.00	4.75
September	2.00	3.75	4.59	6.75	4.50
December	2.25	4.25	5.15	7.25	4.50
March	2.50	4.75	5.53	7.75	4.50
2006/2007					
June	2.75	5.25	6.02	8.25	4.50
September	3.00	5.25	6.25	8.25	4.75
December	3.50	5.25	6.25	8.25	5.00
March	3.75	5.25	6.25	8.25	5.25
2007/2008					
June	4.00	5.25	6.25	8.25	5.50
September	4.00	4.75	5.25	8.25	5.75
December	4.00	4.25	4.75	7.33	5.50

4A

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

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
US$ vs. Sterling	0.5704	0.5425	0.53430	0.51056	**0.5132**	**0.4985**	**0.4905**	**0.4955**
US$ vs. Canadian $	1.1547	1.1138	1.1153	1.1653	**1.1682**	**1.0634**	**0.9963**	**1.0024**
US$ vs. Yen	117.28	114.63	118.00	119.03	**117.26**	**123.39**	**114.98**	**112.36**
US$ vs. Euro	0.8315	0.7900	0.78820	0.75782	**0.7550**	**0.7397**	**0.7033**	**0.6865**

4C

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(Dec 2007)

	GBP	CAN$	US$	Yen	Euro
GBP	1.000	2.024	2.018	226.70	1.386
CAN$	0.494	1.000	0.997	112.04	0.685
US$	**0.496**	1.002	1.000	112.36	0.687
Yen	0.004	0.009	0.009	1.0000	0.006
Euro	0.722	1.461	1.456	163.61	1.000

5A

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

	Sep-06	Dec-06	Mar -07	Jun-07	Sep-07	Dec-07
Sterling vs. US$	1.8716	1.9586	1.9473	2.0061	2.0388	2.0176
Sterling vs. Canadian $	2.0874	2.2824	2.2748	2.1333	2.0313	2.0242
Sterling vs. Yen	220.84	233.14	228.36	247.54	234.43	226.70
Sterling vs. Euro 1/	1.4752	1.4843	1.4702	1.4839	1.4339	1.3857

5B

WORLD COMMODITY PRICES
FOOD
(End- of-Period)

	Jun-06	Sept-06	Dec-06	Mar - 07	Jun-07	Sep-07	Dec-07
Wheat **(US$/m t)**	195.20	196.00	204.31	199.10	197.03	357.68	345.39
Coffee (USc/kg arabica brand)	227.40	242.10	282.99	258.12	252.90	282.28	304.33

5C

MAJOR STOCK MARKET INDICES
(End- of-Period)

	Jun-06	Sept-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
TOKYO							
Nikkei Index	15505.18	16127.58	17225.83	17287.65	18138.36	16785.69	15307.78
NEW YORK							
Dow Jones Industrials	11150.22	11679.07	12463.15	12354.35	13408.62	13912.94	13264.82
S & P Composite	1270.20	1335.85	1418.30	1420.86	1503.35	1531.38	1468.36
LONDON							
Financial Times SE 100	5833.4	5960.8	6220.8	6308.00	6607.90	6486.40	6806.11
FRANKFURT							
Dax Index	6004.33	6596.92	6917.03	8007.32	8005.90	7861.42	8067.32
ZURICH							
SMI Index	7652.10	8425.91	8785.74	8976.99	9209.36	8886.00	8484.46

6

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

	Jun-06	Sep-06	Dec-06	Mar - 07	Jun -07	Sep-07	Dec-07
North Sea Brent	68.86	62.77	62.31	62.09	71.92	80.65	91.45
West Texas Intermediate	70.93	64.10	62.03	60.61	70.69	81.67	91.36

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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