ANNUAL REPORT

2009

Report and Statement of Accounts for the
Year Ended 31 December 2009

Mission Statement

The mission of the Bank of Jamaica is to formulate and implement monetary and regulatory policies to safeguard the value of the domestic currency and to ensure the soundness and development of the financial system by being a strong and efficient organisation with highly motivated and professional employees working for the benefit of the people of Jamaica.

31 March 2010

Hon Audley Shaw, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
30 National Heroes Circle
Kingston 4

Dear Minister,

In accordance with Section 44 (1) of the Bank of Jamaica Act, 1960, I have the honour of transmitting herewith the Bank's Report for the year 2009 and a copy of the Statement of the Bank's Accounts as at 31 December 2009 duly certified by the Auditors.

Yours sincerely,

Brian Wynter

BANK OF JAMAICA

PRINCIPAL OFFICERS

GOVERNOR

Mr. Brian Wynter

SENIOR DEPUTY GOVERNOR

Mrs. Audrey Anderson, C.D.

DEPUTY GOVERNORS

1. Mr. Rudolph Muir - General Counsel & Bank Secretary
2. Mrs. Myrtle Halsall - Research & Economic Programming and Banking & Market Operations Divisions
3. Mrs. Gayon Hosin - Financial Institutions Supervisory Division
4. Mr. Livingstone Morrison - Finance & Technology Division and Payments System and Risk Management Sub-Division

GENERAL MANAGER

Mr. Kenloy Peart

DIVISION CHIEFS

1. Mrs. Natalie Haynes - Banking & Market Operations Division
2. Mr. John Robinson - Research & Economic Programming Division

DEPUTY GENERAL MANAGER

Mr. Calvin Brown

FINANCIAL CONTROLLER

Mr. Herbert Hylton - Finance & Technology Division

DEPUTY GENERAL COUNSEL

Mr. Randolph Dandy - Legal Department

CHIEF AUDIT EXECUTIVE

Mr. Horace Lowers - Internal Audit Division

BOARD OF DIRECTORS

MR. BRIAN WYNTER
Governor & Chairman

MRS. AUDREY ANDERSON, C.D.
Deputy Chairman

MR. ROHAN BARNETT

DR. WESLEY HUGHES, C.D.

MR. MARK MYERS

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Corporate & Administrative Review

Abbreviations

ABM	Automated Banking Machines
ACH	Automatic Clearing House
ACP	African, Caribbean and Pacific (countries)
AFI	Approved Financial Institutions
Ag	The chemical symbol for silver, from the Latin A*rgentum*
AML	Anti-money Laundering
ASBA	Association of Banking Supervisors of the Americas
Au	The chemical symbol for gold, from the Latin A*urum*
BNS	Bank of Nova Scotia
BIS	Bank for International Settlements
BOJ	Bank of Jamaica
BOP	Balance of Payments
Bps	Basis points
CAR	Capital Adequacy Ratio
CARICOM	Caribbean Community
CARTAC	Caribbean Regional Technical Assistance Centre
CD	Certificate of Deposit
CDB	Caribbean Development Bank
CEMLA	Centre for Latin American Monetary Studies
CEO	Chief Executive Officer
CFATF	Caribbean Financial Action Task Force
CFT	Counter-Financing of Terrorism
CGBS	Caribbean Group of Banking Supervisors
c.i.f.	cost, insurance and freight
CIFTS	Customer Inquiry Funds Transfer System
COK	City of Kingston (Credit Union)
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSD	Central Securities Depository
DBJ	Development Bank of Jamaica
DTI	Deposit-taking Institutions
DVBP	Dollar Value of a Basis Point
DvP	Delivery versus Payment
DVPP	Dollar Value of a Percentage Point Change
ELC	Exogenous Liquidity Cost
EU	European Union
EWS	Early Warning System
EXIM Bank	National Export-Import Bank of Jamaica
FATF	Financial Action Task Force
Fed	Federal Reserve (US)
FIA	Financial Institutions Act

FID	Financial Investigations Division
FISD	Financial Institutions Supervisory Division
FIU	Financial Intelligence Unit
f.o.b.	Free on board
FSC	Financial Services Commission
FY	Fiscal Year
GBP	Great Britain Pound
GCT	General Consumption Tax
GDP	Gross Domestic Product
GFA	Gross Foreign Assets
GKMA	Greater Kingston Metropolitan Area
GOJ	Government of Jamaica
IADB	Inter-American Development Bank
IFRS	International Financial Reporting Standards
ILF	Intra-day Loan Facility
IMF	International Monetary Fund
IPCP	Index of Primary Commodity Prices
IT	Information Technology
JamClear	Jamaica Clearance and Settlement Assured in Real Time'
JBA	Jamaica Bankers' Association
JCCUL	Jamaica Cooperative Credit Union League
JCSD	Jamaica Central Securities Depository
JDX	Jamaica Debt Exchange
JMD	Jamaica Dollar
JSE	Jamaica Stock Exchange
JTB	Jamaica Tourist Board
KVA	Kilo-volt Ampere
KYC	Know Your Customer
LFI	Loans to Financial Institutions
L-VaR	Liquidity-Adjusted Value at Risk
MIIC	Ministry of Industry, Investment and Commerce
MPI	Micro-prudential Index
NDA	Net Domestic Assets
NIF	National Insurance Fund
NIR	Net International Reserves
NOP	Net Open Position
NPL	Non-Performing Loans
OMO	Open Market Operations
OUC	Other Urban Centres
PCB	People's Cooperative Bank
PCMB	PanCaribbean Merchant Bank

PD	Primary Dealers
POCA	Proceeds of Crime Act
POS	Point of Sale
PSE	Public Sector Entities
ROAA	Return on average assets
RTGS	Real Time Gross Settlement
SCT	Special Consumption Tax
SDR	Special Drawing Rights
SIPS	Systemically Important Payments System
SME	Small and Medium-sized Enterprises
SWIPS	System-wide Important Payment System
TCI	Trade Credit Insurance
UK	United Kingdom
UN	United Nations
UNITAR	United Nations Institute for Training and Research
USA	United States of America
USD	United States Dollar
WATBY	Weighted Average Treasury Yield
WTO	World Trade Organization

1. Economic and Financial System Review

1. Overview

The Policy Environment

Economic and financial developments in Jamaica were largely influenced by the continuation of the recession in the global economy during 2009. The global recession was characterized by economic contraction, low inflation and rising unemployment. The outcome for the main economic indicators for the Jamaican economy in 2009 was similarly mixed. Inflation moderated while the foreign exchange market was relatively stable except for the challenges during the first two months of the year. This improvement in the outlook for inflation allowed for a steady reduction in the Bank's interest rates, a trend which was also reflected in market rates. The policy stance was also supported by the narrowing of the deficit on the current account of the balance of payments while official foreign reserves remained adequate and the financial system remained resilient. Notwithstanding these positive developments, the stagnation in world demand was reflected in a decline in domestic output and disposable incomes, which in turn exacerbated the fiscal performance. There was also a marked decline in foreign currency inflows from abroad.

The foreign exchange market in 2009 was generally characterized by lower trading activity, relative to 2008. The reduced supply reflected declining inflows from remittances and private investment, as well as from mining and tourism. Concurrently, demand was subdued by the overall decline in the domestic economy and falling import commodity prices, in particular crude oil. The weighted average selling rate of the Jamaica Dollar vis-à-vis the US dollar depreciated by 10.2 per cent in 2009. Most of the depreciation, 9.4 per cent, occurred in the March 2009 quarter, influenced by an extended episode of tight US dollar liquidity since the December 2008 quarter as well as declining expectations.

Inflation in 2009 was 10.2 per cent, relative to 16.8 per cent recorded in 2008. The reduction, relative to the previous year, was in the context of declining prices for some import commodities, rising unemployment and lower disposable incomes. Inflation in the year was also tempered by the relative stability in the exchange rate in the final three quarters of the year. Furthermore, favourable weather as well as increased productivity and output in the agriculture sector provided some countervailing forces for domestic inflation. The primary factors influencing inflation in 2009 were higher energy costs and administrative price increases associated with Government revenue measures. A steady increase in crude oil prices during the year led to the higher energy costs, which in turn, had an adverse impact on the cost of domestic services and processed foods. Movements in the price of sugar in the second half of the year also contributed to domestic price impulses during 2009.

The Bank tightened monetary policy and implemented a number of initiatives in early 2009, aimed at restoring foreign exchange market stability and containing the associated impulses to inflation. The policy actions included an increase in statutory reserve requirement of deposit-taking institutions (DTIs) to deal with the excess Jamaica Dollar liquidity, and the establishment of a special facility to coordinate the significant foreign currency demand from public entities. The public entities' facility was funded from additional surrender requirements from the authorized dealers and cambios. These actions were complemented by existing measures, *inter alia*, foreign exchange market intervention, intensified moral suasion with authorized dealers and cambios, and the intermediation of foreign currency loans among banks. Given the success of these initiatives and the declining trend in annual inflation, there was a subsequent easing of monetary policy by the BOJ, through a steady reduction in its interest rates over the last three quarters of 2009. Over this period, the Bank lowered interest rates by 650 basis points across the spectrum of its open market operation (OMO) securities.

Led by the reduction in policy interest rates, market-determined rates also declined during 2009. Yields on the 3-month and 6-month Treasury Bills declined to 15.95 per cent and 16.80 per cent, respectively, at the December 2009 auction, relative to 22.01 per cent and 24.45 per cent at the December 2008 auction. With the general decline in short-term interest rates, the Government was able to reduce the coupon rates offered on its domestic bond issues during 2009. This occurred despite the increased reliance on the domestic market to finance GOJ operations in 2009, as the international credit markets remained inaccessible for most of the year.

The Jamaican economy declined by 2.8 per cent in 2009, reflecting primarily weak external and domestic demand coupled with heightened uncertainty regarding economic prospects. The fall in external demand resulting from the global recession led to significant reduction in exports. Weak domestic demand emanated from falling real income, increased domestic unemployment, reduced remittance inflows and tightening credit conditions which, led to lower consumption and investment spending.

Both the tradable and non-tradable industries recorded declines during the year. The main industries that contracted were **Mining & Quarrying**, **Manufacture**, **Transport, Storage & Communication** as well as **Construction.** Partly offsetting the impact of the contraction in these industries on overall GDP was strong growth in **Agriculture, Forestry & Fishing** and smaller increases in **Electricity & Water**, **Hotels & Restaurants** as well as **Finance & Insurance Services.** The mining sector declined by about 50.0 per cent in the review year, as the global demand for metal fell precipitously. The continued downturn in **Manufacture** was exacerbated by weak external demand associated with the global economic recession as well as lower domestic demand due to reduced disposable income. On the other hand, growth in the agriculture sector reflected continued recovery over 2008, driven by relatively good weather conditions as well as coordinated growth initiatives by the Ministry of Agriculture.

Following four consecutive years of deterioration, the current account deficit of Jamaica's balance of payments (BOP) for 2009 is estimated to have narrowed sharply to 7.3 per cent of GDP from 20.0 per cent of GDP in the previous year. A marked reduction in the deficit on the merchandise trade sub-account, complemented by an increase in the surplus on the services sub-account, were the main factors influencing this improvement. The lower trade deficit resulted primarily from reduced domestic demand as well as lower import commodity prices, particularly for crude oil. Imports fell by 39.3 per cent with all categories of imports, except *Miscellaneous Commodities*, registering declines. Partly offsetting the impact of the lower imports, was an almost 50.0 per cent decline in exports which was driven primarily by the fallout in the bauxite/alumina industry. The improvement in the services sub-account reflected lower payments for transportation and other services arising from lower imports. However, there was a marginal decline in the net surplus on the travel sub-account, due mainly to a significant decline in cruise arrivals, the impact of which was partly offset by a fall in spending by Jamaicans travelling abroad.

There was a large decline in the surplus on the financial account of the BOP in 2009 due to normalization in net private investment inflows following extraordinary flows in 2008. The fall-off in these flows was also due to the impact of weakened global credit conditions. Net official investment inflows also declined in 2009. The decline largely reflected the impact of the Government's absence from the international bond market, which was only partly offset by the receipt of the SDR equivalent of US$330.8 million. Accordingly, there was a decline in the NIR of the BOJ as net private and official investment inflows were insufficient to finance the deficit on the current account. Consequently, the NIR of the BOJ declined by US$43.6 million to US$1 729.4 million as at end-2009, with gross reserves representing 13.4 weeks of projected imports of goods and services.

For the period April to December 2009, the Government incurred a fiscal deficit of 9.3 per cent of GDP, relative to a deficit of 5.2 per cent of GDP for the comparable period in FY2008/09. While ***Revenue and Grants*** for the review period was 4.8 per cent larger, expenditure for the review period was 20.3 per cent above that recorded for April to December 2008. With the exception of *Programmes,* all categories of expenditure exceeded 2008 levels, with domestic interest payments reflecting the largest increase. In the context of the closed international capital market, the Government relied heavily on the domestic market to finance its operations.

During 2009, growth in broad money supply, (M3*) accelerated to 9.2 per cent from 5.8 per cent in 2008. In real terms, however, there was a decline of 0.9 per cent in M3*, coincident with the reduction in real economic activity, the fall in real wages and increased unemployment. With the exception of savings and time deposits, all the components of M3* contributed to the faster growth rate. This was influenced primarily by an increase in net claims on the public sector and a net unwinding of the BOJ's OMO instruments. The expansionary influences on M3* were partly offset by a slowdown in banking system credit to the private sector as well as a decline in net claims on financial institutions.

As the global economy recovers in 2010, this momentum is expected to be reflected in the performance of the Jamaican economy. The outlook for the domestic economy is predicated on improved investor confidence, precipitated by the engagement of a 27-month Stand-by Agreement with the IMF, which is expected to influence some normalisation in private capital flows. Improved flows are also expected from tourism earnings and remittances. However, the impact of the positive developments in the external economy will be tempered by continued weak domestic demand, associated with fiscal consolidation and a weak labour market. In this context, inflation for 2010 is expected to continue to moderate, as the impact of GOJ revenue measures implemented on 01 January 2010 subsides. The risks to the outlook for gradual improvement mainly relate to external factors such as shocks to international commodity prices, a slower than anticipated recovery in the global economy and adverse weather. The Bank's monetary policy in 2010 will be guided by the inflation objective outlined in the medium-term economic programme.

The Supervision of Financial Institutions

Despite the expansionary effect of revalued foreign currency portfolios, the balance sheet of deposit-taking institutions (DTIs) reflected slower growth during 2009, symptomatic of the global economic recession and its impact on the domestic economy. The slower growth was mainly reflected in a deceleration in the growth of **Loans and Advances**. Deposits, however, grew more rapidly during 2009, compared to 2008, representing some shifting from borrowings, particularly in overseas markets where liquidity and credit conditions were tight. The stock of non-performing loans 3 months & over (NPLs) for the DTIs, inclusive of credit unions, rose to 4.5 per cent of the total loan portfolio, from 3.0 per cent at end-2008. This performance was symptomatic of the weak domestic economic performance. Accordingly, unaudited data submitted by licensees to the Bank of Jamaica indicated that the DTIs recorded a pre-tax profit margin of 21.1 per cent for 2009, compared to 26.1 per cent recorded for 2008. Although the total number and composition of licensed deposit-taking entities remained unchanged in 2009, there was a decline in the branch network of DTIs. This was reflective of increasing electronic banking options and consolidation of operations as banks sought to increase efficiency and maintain profit margins in the challenging economic environment.

The Bank, during 2009, undertook frequent stress testing of the DTIs under assumptions of adverse market, credit and liquidity shocks. The objective was to simulate the impact of extreme but plausible shocks to various risk factors such credit quality, exchange rates, domestic interest rates and liquidity on the capital adequacy ratios (CARs) of the DTIs. When subjected to these hypothetical shocks, the CAR for the DTIs as a group at end-2009 remained above the 10.0 per cent minimum benchmark, representing an improvement relative to 2008. At end-2009, the CAR for the DTIs was 18.9 per cent, relative to 15.4 per cent at end-2008. There were also improvements in the micro-prudential indices for the commercial banks and building societies. However, some macro-prudential indicators deteriorated during 2009 in the context of worsening public sector debt dynamics, underperformance in domestic GDP and private sector credit as well as investor uncertainty.

The challenges to the domestic economy posed by the global financial crisis during 2009 led the Bank to undertake specific policy initiatives as well as intensified monitoring and assessment of licensees' condition and performance on both an individual and systemic basis. These activities included, *inter alia*, the systematic revision of the current suite of Standards of Best Practices for effective risk management, the development of a plan for Regional Financial Crisis Management and increased emphasis on the assessment of the framework governing the information technology systems of its licensees, with particular focus on areas such as security, business continuity and the outsourcing of services. The Bank also submitted the finalized AML/CFT Guidance Notes to the Ministry of National Security for approval and gazetting.

There was an amendment to the Bank of Jamaica Act in 2009. This involved a revision of the 'legal tender' provisions in order to impose a limit on the overall number of coins that constitute legal tender for a transaction. The Bank also introduced a new legal tender, a $5000 banknote, in the year. In terms of other legislative developments, the Bank remained an active participant in reviews of other pieces of legislation impacting the financial sector, most notably the Financial Investigations Division Bill through its chairmanship of the Task Force on Financial Crime. In addition to establishing the operational framework for the Credit Reporting Bill, the BOJ continued the drafting of an Omnibus Bill that would include an enhanced legal framework for conglomerate supervision.

In 2009, the Bank took significant steps in the modernization of the payments system and the trading of securities. In this regard, the Bank implemented a Real Time Gross Settlement (RTGS) System and a Central Securities Depository (CSD) on 27 February 2009 and 15 May 2009, respectively. The implementation of the RTGS replaced the previous end-of-day batch-based payment system, the Customer Inquiry Funds Transfer System (CIFTS). On the other hand, the implementation of the CSD ushered in the electronic issuing, clearing and custody of domestic fixed income securities. These systems form the core of Jamaica's payments and settlement systems infrastructure and signalled the successful implementation of phase 1 of the National Payments System Reform programme.

Corporate Changes

On 30 October 2009, the Hon. Derick Latibeaudiere demitted office as Governor of the Central Bank, after thirty-five years of service to the institution, the last thirteen of which he served as Governor. A former deputy governor, Mr. Brian Wynter was appointed Governor on 23 November 2009.

In 2009, the administration of the Bank undertook a more aggressive approach to the management of occupational health and safety issues as well as implemented systems which should improve industrial relations within the institution. During the latter half of 2009, the Financial Services Commission (FSC) approved the licensing and registration of the Bank of Jamaica as Investment Manager and Administrator of the Bank of Jamaica Pension Scheme.

2. The Financial System

2.1. Monetary Policy Management

2.1.1. Introduction

The global economic downturn continued to be a dominant influence on the Jamaican economy during 2009. Its impact was most evident in the first quarter when the foreign exchange market was characterized by severe demand pressures. In addition, there was an increase in inflation and further contraction in domestic output. These developments necessitated a tightening of monetary policy and implementation of a number of initiatives aimed at restoring stability to the foreign exchange market and containing inflation. However, by the beginning of the June 2009 quarter, the Bank commenced the easing of its monetary policy stance in light of a restoration of relative stability in the foreign exchange market, an abatement of inflation, a positive inflation outlook and the continued contraction of the domestic economy.

2.1.2. Developments and Challenges

During the March 2009 quarter, the domestic financial market was most severely affected by the global financial crisis. There was a decline in the supply of foreign currency in the quarter, given a continued contraction in private capital inflows, due to a disruption in credit lines to the financial and productive sectors as well as a reduction in remittance inflows, stop-over visitor arrivals and export earnings. In addition, high domestic liquidity conditions, which emanated from seasonally high currency redemption following the Christmas holidays as well as maturing BOJ Certificates of Deposit (CD) and Government of Jamaica (GOJ) debt maturities, further threatened stability in the domestic financial market. In an effort to absorb the excess domestic liquidity, the Bank increased the statutory domestic cash reserve requirement (CRR) of deposit-taking financial institutions to 13.0 per cent from 11.0 per cent on 02 January. A further increase of the CRR to 14.0 per cent was effected on 06 February[1]. The Bank also sold foreign currency to the market to augment supplies to end-users. In addition, on 03 February the Bank implemented the Public Sector Entities (PSE) foreign exchange facility, which consolidated the foreign exchange demand of these entities and coordinated foreign currency payments to minimize volatility in the market. Under this arrangement, an additional 15.0 per cent and 10.0 per cent of US dollar purchases were surrendered by the commercial banks and cambios, respectively. The Bank also engaged in frequent dialogue with the authorized dealers and cambios and maintained the direct lending and intermediation facilities introduced in the December 2008 quarter. These initiatives restored stability to the foreign exchange market by February, evidenced by a significant moderation in the rate of depreciation

[1]Effective 02 January, the statutory foreign currency cash reserve requirement was also increased to 11.0 per cent from 9.0 per cent.

in the exchange rate and resulted in a lowering of inflation expectations during the year.

The relative stability in the foreign exchange market facilitated an easing of the Bank's monetary policy stance in the June 2009 quarter. On 08 April, the Bank lowered the interest rate payable on its 365-day open-market operation (OMO) instrument by 133 basis points (bps) to 22.67 per cent and on 03 June, removed this instrument from the menu of OMO instruments (see **Chart 1**). The latter action also reflected the Bank's preference to operate in the shorter end of the market.

The stability in the June quarter also reflected the impact of the Government's announcement of its intention to negotiate borrowing arrangements with the International Monetary Fund (IMF). The need for these resources arose from the adverse impact of the global financial crisis on the country's external accounts.[2] The ensuing confidence arising from the prospects of entering a Stand-By Arrangement with the IMF enabled the Bank to lower interest rates across the spectrum of OMO securities on four occasions by a total of 450 bps in the September quarter. Additional factors which facilitated this adjustment included improved inflation prospects, relative stability in the foreign exchange rate and a relatively strong net international reserves (NIR) position. The NIR increased by US$318.8 million during the September quarter due to the receipt of two allocations of special drawing rights (SDRs) from the IMF, equivalent to US$330.8 million. These receipts included a general allocation of US$303.4 million on 30 August designed to provide liquidity to the global economic system, as well as a one-time allocation of US$27.4 million made on 09 September.

The Bank further reduced the interest rates payable across the spectrum of its OMO securities by 200 bps during the December 2009 quarter. The easing of the Bank's monetary policy stance occurred in a context of continued positive trends in some key economic indicators, namely, inflation, the balance of payments and the foreign exchange rate. The decision was also supported by the near-term prospect of the signing of the Stand-By Arrangement with the IMF. In addition, the Bank sold foreign currency directly to the market during the review quarter including sales to a few financial institutions which had received margin calls as a result of the ratings downgrades of the Government's sovereign debt.[3]

During the December 2009 quarter the Bank also extended credit to the Government to assist in closing its financing gap in a context of reduced investor appetite for GOJ debt. The demand for GOJ instruments waned as a result of heightened uncertainty in the domestic market surrounding the terms and timing of the IMF agreement

[2]The Government's need to access funds from the IMF occurred in a context where the international capital markets were effectively closed to emerging market economies.

[3]On 02 November 2009, S&P lowered its long-term foreign and domestic sovereign credit rating on Jamaica to 'CCC' from 'CCC+' and maintained a negative outlook. On 18 and 24 November 2009, respectively, ratings agencies Moody's and Fitch also downgraded Jamaica's local and foreign currency government bond ratings. Moody's downgraded Jamaica's local and foreign currency government bond ratings by two notches to Caa1 from B2. Fitch downgraded Jamaica's local and foreign currency government bond ratings by three notches to 'CCC' from 'B'. The outlook also remained negative for both agencies.

and associated Government debt management initiatives. This support to the GOJ included temporary advances of $5.1 billion in November and the purchase of securities totalling $18.0 billion on 15 December. The Government repaid $2.5 billion of the advance in December and the remaining $2.6 billion was converted to GOJ securities.

2.1.3. Base Money Management

Against the background of these developments, the monetary base expanded by $9.6 billion or 13.5 per cent in 2009, relative to an expansion of 9.6 per cent in 2008. The acceleration in the growth in the monetary base during the review year was largely reflected in an increase of $7.2 billion or 32.9 per cent in the CRR (see **Table 1B**).

The main source of the expansion in the monetary base for 2009 was an increase of $12.4 billion in the Net Domestic Assets (NDA). The increase in the NDA mainly reflected the increase of $23.3 billion in the Bank's holdings of Government securities as well as a net unwinding of $19.9 billion of the Bank's OMO instruments. These impulses more than offset the liquidity absorbed by a US$43.6 million decline in the NIR for the year. The decline in the NIR largely reflected the Bank's direct sales of foreign exchange to the market which more than offset the inflows due to the SDR allocations.

Chart 1

Interest Rates on BOJ OMO Instruments

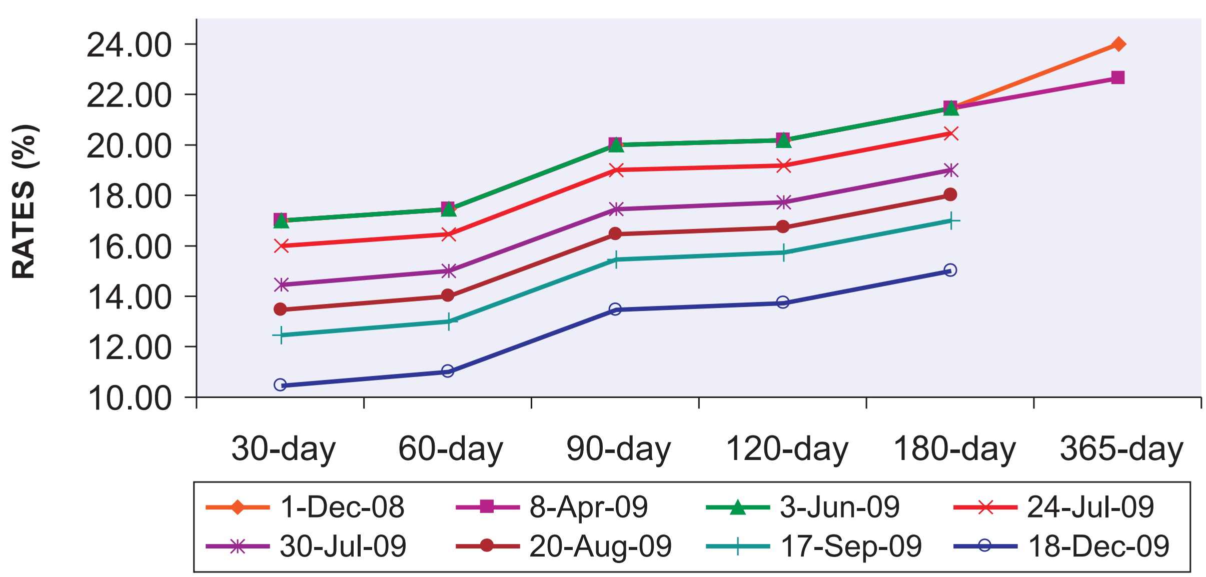


Table 1A

BANK OF JAMAICA - ECONOMIC PROGRAMME TARGETS STOCKS J$MN. DECEMBER 2009			
	TARGET	OUTTURN	DEVIATION FROM TARGET
NET INTERNATIONAL RESERVES (US$)	1 670.0	1 729.4	59.4
NET INTERNATIONAL RESERVES (J$)	150 634.0	153 894.9	3 260.9
NET DOMESTIC ASSETS	-67 994.1	-72 778.7	-4 784.6
MONETARY BASE	82 639.9	81 116.2	-1 523.7

Table 1B

BANK OF JAMAICA - SUMMARY FLOWS - J$ MILLION	2008	2009				2009
	Total	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Total
Net International Reserves (US$)	**-104.8**	**-144.4**	**-9.2**	**313.8**	**-203.9**	**-43.6**
NET INT'L RESERVES (J$)	**-7 792.8**	**-11 720.6**	**-816.6**	**27 928.2**	**-18 144.2**	**-2 753.1**
Assets	-8 322.7	-10 717.1	-252.3	30 850.6	-22 730.7	-2 849.5
Liabilities	529.8	-1 003.5	-564.3	-2 922.4	4 586.5	96.4
NET DOMESTIC ASSETS	**14 034.3**	**11 424.6**	**2 312.9**	**-28 498.1**	**27 131.3**	**12 370.6**
Net Claims on Public Sector	**28 962.1**	**4 365.1**	**11 223.8**	**-30 347.5**	**19 733.6**	**4 975.0**
- Central Government Deposits	11 334.6	-2 564.2	9 594.9	-7 263.5	2 047.6	1 814.8
- Government Securities	13 627.4	53.3	737.0	1 223.0	21 239.8	23 253.0
- Other	4 000.2	6 876.0	892.0	-24 307.0	-3 553.8	-20 092.9
Net Credit to Banks	**-1 851.1**	**-3 190.9**	**-218.4**	**-103.2**	**896.4**	**-2 616.1**
Open Market Operations	**-17 187.5**	**12 591.2**	**-1 436.7**	**2 271.8**	**6 491.3**	**19 917.5**
Other	**4 110.8**	**-2 340.9**	**-7 255.8**	**-319.2**	**10.1**	**-9 905.7**
MONETARY BASE	**6 241.5**	**-296.0**	**1 496.3**	**-569.9**	**8 987.2**	**9 617.6**
- Currency Issue	1 805.0	-6 896.9	1 078.9	219.9	8 428.6	2 830.5
- Cash Reserve	4 723.5	6 943.6	502.4	-877.8	653.4	7 221.6
- Current Account	-287.0	-342.7	-85.0	88.0	-94.8	-434.5
Memo:						
NIR Stock (US$MN) e.o.p	1 772.94	1 628.58	1 619.40	1 933.24	1 729.35	1 729.35
Growth in Monetary Base (%)	9.6	-0.4	2.1	-0.8	12.5	13.5
Inflation (%)	16.8	1.3	2.7	3.1	2.8	10.2

2.2. Money Supply

During 2009, growth in broad money supply, M3*accelerated to 9.2 per cent from 5.8 per cent in 2008 (see **Table 2**).[4] With the exception of Quasi Money, *Savings* and *Time Deposits*, all the components of M3* contributed to the faster rate of growth. In real terms, however, there was a decline of 0.9 per cent in M3*, which coincided with the reduction in overall real economic activity, the contraction in real wages as well as increased unemployment.

The aggregate of *Currency with the Public and Demand Deposits*, M1*, increased by 7.9 per cent, in contrast to a reduction of 5.0 per cent in 2008. Growth in *Currency with the Public* accelerated to 6.2 per cent in 2009 from 3.2 per cent in 2008. In real terms, however, there was a reduction of 3.6 per cent in *Currency with the Public* in 2009. There was also a slower rate of growth, both in real and nominal terms, in the use of alternative means of payment such as point of sale transactions (POS) predominantly credit cards, suggesting concerns among individuals about their ability to service their debt (see **Table 3**).

Table 2

MONEY SUPPLY (M3*)
(DOMESTIC AND FOREIGN CURRENCY)

	2008 Flows (J$M)	2009 Flows (J$M)	2008 %	2009 %
Money Supply (M2)*	**13 206.7**	**18 973.8**	**4.4**	**6.1**
Money Supply (M1)*	**-5 222.9**	**7 923.4**	**-5.0**	**7.9**
Currency with the Public	1 320.9	2 619.1	3.2	6.2
Demand Deposits	-6 543.7	5 304.3	-10.1	9.1
Quasi Money	**18 429.6**	**11 050.4**	**9.5**	**5.2**
Savings Deposits	12 013.6	10 294.7	8.2	6.5
Time Deposits	6 416.0	755.7	13.5	1.4
Other Deposits	**7 825.6**	**16 230.9**	**13.0**	**23.8**
Total Money Supply (M3)*	**21 032.5**	**35 204.7**	**5.8**	**9.2**
Net Foreign Assets	**-44 243.4**	**15 547.0**	**-24.1**	**31.1**
Bank of Jamaica	-6 544.7	-2 753.1	6.6	6.9
Commercial Banks	-37 698.7	18 300.1	245.0	34.5
Credit to Private Sector	**45 066.2**	**4 518.4**	**27.1**	**2.1**
Local Currency	17 627.5	-713.2	16.5	-0.6
Foreign Currency	27 438.8	5 231.5	46.4	6.0
Net Claims on Public Sector/1	**27 105.6**	**47 789.7**	**13.9**	**21.6**
Net Claims on Financial Institutions/1	**-2 875.6**	**-11 412.7**	**25.3**	**80.1**
BOJ Open Market Operations/2	**-17 187.5**	**19 917.5**	**15.0**	**-15.1**
Other Items (Net)	**13 167.1**	**-41 155.2**	**-46.5**	**-1 952.7**
TOTAL	**21 032.5**	**35 204.7**	**5.8**	**9.2**

/1 A negative flow represents a reduction in the stock.
/2 A negative flow represents an increase in the stock.

[4]Money supply M3* is defined as M2* plus Other Deposits. M2* represents banking system domestic and foreign currency liabilities to the private sector in the form of notes and coins as well as demand, time and saving deposits. Other Deposits are largely comprised of commercial banks' reserves.

Table 3

Point of Sale Transactions		
Annual Growth	**2008**	**2009**
Value (%)	24.9	14.0
Volume (%)	15.9	12.6
Value (J$MN)	19 431.9	13 610.6

Demand Deposits increased by 9.1 per cent, relative to a reduction of 10.1 per cent in 2008. This increase reflected expansions of 12.6 per cent and 8.5 per cent in foreign and local currency demand deposits, respectively. The increase in foreign currency demand deposits reflected a build-up in the deposits of individuals during the March and December quarters, when there were heightened concerns about the supply of foreign currency in the market. The build-up in these deposits during the December quarter also coincided with uncertainty in relation to the terms and timing of the Stand-by Arrangement with the IMF.

Growth in **Quasi Money** decelerated to 5.2 per cent in 2009 from 9.5 per cent in 2008 in a context where there was further contraction in economic activity (see **Table 2**). This slowdown in **Quasi Money** was reflected in both *Savings* and *Time Deposits*. The slower rate of growth in *Savings Deposits* reflected a deceleration in the foreign currency component to 11.6 per cent from 16.6 per cent in 2008. However, there was a build-up in these deposits during the March and December quarters. At end-2009, the stock of savings deposits denominated in local currency was in line with that which obtained at end-December 2008.

The sharp deceleration in the growth of *Time Deposits* reflected a 10.7 per cent reduction in the local currency component as well as a slower rate of growth in the foreign currency deposits. A decline in real income influenced the slowdown in *Time Deposits*.

The faster rate of growth in M3* was influenced by an increase in net claims on the public sector and a net unwinding of the BOJ's open market operation instruments (OMO). The increase in net claims on the public sector was in a context where the Government relied heavily on the banking sector to finance its operations. Proceeds from the net unwinding of the Bank's OMO instruments were partly used to make placements in GOJ instruments as well as to pay for commercial banks' currency orders, particularly in December.

The expansionary influences on M3* were partly offset by a slowdown in commercial banks' credit to the private sector as well as a decline in net claims on financial institutions. There was marked deceleration in the growth rate in private sector credit during 2009 which reflected a reduction in local currency loans and a slower rate of expansion in foreign currency loans. The slowdown was influenced by significant net repayments in **Transport Storage & Communication** and **Personal loans** (see **Commercial Banks**). The reduction in net claims on financial institutions was in a context where domestic financial institutions reduced investments in non-GOJ foreign currency securities and increased placements with domestic banks in the context of the global financial crisis.

2.3. Commercial Banks

2.3.1. Overview

During 2009, there was marked deceleration in the growth rate of the balance sheet of the commercial banks in the context of the global financial crisis. The impact was evidenced in a reduction in the banks' holdings of securities and a significant slowdown in the rate of growth in *Loans and Advances*. Concurrently, there was a relatively sharp increase in *Cash & Bank Balances*. The slower rate of expansion in the banks' asset base coincided with the contraction in the economy which influenced a notable deceleration in the rate of growth in *Loans and Advances* and local currency deposits. In addition, in the context of weak domestic and global demand, there was further deterioration in the banks' asset quality, as reflected in an increase in past due loans relative to the stock of loans.

2.3.2. Assets and Liabilities

The commercial banks' asset base increased by 3.5 per cent in 2009, relative to an expansion of 12.1 per cent in 2008 (see **Table 4**). This slower rate of growth was mainly reflected in a reduction in the institutions' holdings of *Investments* as well as a marked deceleration in the rate of growth in *Loans and Advances.*[5] The reduction in *Investments* was largely reflected in the institutions' holdings of BOJ instruments and foreign government securities. The decline in the holdings of foreign government securities was in the context of the global financial crisis. Some of the proceeds from the securities which were unwound facilitated an increase in the holdings of GOJ foreign and domestic securities. The increased holdings of GOJ foreign currency securities was particularly evident in the first quarter of the year when there was a heightened pace of depreciation in the value of the Jamaica Dollar. The depreciation influenced an increase in the demand for these securities as a hedge. Notwithstanding this increase, commercial banks' holdings of securities as a proportion of total assets, declined to 28.6 per cent at end-2009 from 29.3 per cent at end-2008.

During 2009, growth in the banks' stock of loans slowed significantly to 3.2 per cent from 26.3 per cent in 2008. This deceleration was largely reflected in a decline in local currency-denominated loans as well as slower rate of growth in foreign currency-denominated loans (see **Table 4**). Given this slowdown, the stock of loans as a proportion of total assets declined to 44.2 per cent at end-2009 from 44.3 per cent at end-2008 (see **Chart 2**). The slowdown in the growth of the loan stock may be attributed to the contraction in the economy as a consequence of the global recession.

There was acceleration in the rate of growth in the institutions' *Cash & Bank Balances* which offset the impact of the reductions in other categories of asset on the banks' balance sheet. The faster rate of growth in *Cash & Bank Balances* was

[5] Total Securities = Investments + Securities Purchased for Resale. The commercial banks' stock of loans refers to gross loans net of International Financial Reporting Standards (IFRS) provisions for losses.

mainly reflected in a build-up in the banks' cash reserves, influenced by increases in the domestic and foreign currency cash reserve requirement (CRR) of the deposit taking institutions. The increase in *Cash & Bank Balances* also reflected increased placements of foreign currency with overseas banks, particularly in the December

Table 4

COMMERCIAL BANKS' SUMMARY OF ASSETS AND LIABILITIES (J$MN)	Stock 2009	Flows 2007	Flows 2008	Flows 2009	% 2007	% 2008	% 2009
ASSETS (1)	**566 143.1**	**60 866.1**	**59 263.9**	**18 914.2**	**14.3**	**12.1**	**3.5**
Cash and Bank Balances	121 065.1	11 254.3	7 736.0	18 494.9	13.5	8.2	18.0
Placements with Overseas Banks	39 079.7	6 620.5	-9 950.9	7 628.5	19.0	-24.0	24.3
Due from BOJ	58 842.4	1 208.3	16 672.0	12 233.0	4.2	55.7	26.2
Other Accounts desig. as Liquid	13 416.6	-3 206.0	9 694.9	2 871.7	-79.0	1140.6	27.2
Cash Reserve	45 425.8	4 414.3	6 977.2	9 361.2	17.9	24.0	26.0
Investments	155 306.5	4 644.8	-6 630.9	-1 440.4	2.9	-4.1	-0.9
-Domestic Currency	92 756.0	-1 819.9	-7 492.9	-4 034.4	-1.7	-7.2	-4.2
BOJ Securities	25 021.8	-5 739.1	-1 261.6	-10 076.5	-13.6	-3.5	-28.7
Jamaica Government Securities	63 701.0	5 788.9	-5 468.1	6 009.8	10.1	-8.7	10.4
-Foreign Currency	62 550.6	6 464.7	862.0	2 594.1	12.3	1.5	4.3
Ja. Gov. Foreign Securities	51 566.8	5 804.4	-1481.9	5 465.8	13.9	-3.1	11.9
Foreign Govt. Securities	34.2	1.1	3 245.7	-3 365.7	0.7	2 104.8	-99.0
Other Foreign Securities	10 949.5	659.2	-901.8	494.0	6.2	-7.9	4.7
Securities Purchased for resale	6 703.1	-3 196.0	-650.5	3 368.7	-44.5	-16.3	101.0
Loans (Net of provisioning)	250 352.2	41 473.5	50 420.5	7 879.3	27.5	26.3	3.2
Domestic	130 612.0	22 880.8	17 857.8	-2 184.5	24.9	15.5	-1.6
Foreign	125 777.8	18 745.2	33 231.9	12 409.4	30.5	41.5	10.9
Accounts Receivable	8 764.9	-102.2	7 000.4	-4 642.4	-1.6	109.3	-34.6
Fixed Assets	10 171.2	355.7	1 045.4	714.1	4.4	12.4	7.6
Other Assets	13 780.0	6 435.9	343.1	-5 460.1	51.6	1.8	-28.4
LIABILITIES & CAPITAL	**566 143.1**	**60 866.1**	**59 263.9**	**18 914.2**	**14.3**	**12.1**	**3.5**
Deposits	357 096.6	38 233.2	12 801.3	23 136.6	13.5	4.0	6.9
Domestic	208 434.8	22 540.5	7 091.2	2 947.8	12.8	3.6	1.4
Foreign	148 661.9	15 692.7	5 710.1	20 188.8	14.7	4.7	15.7
Due to Bank of Jamaica	450.4	-149.2	163.7	253.3	-81.7	489.8	128.5
Due to Commercial banks	58 050.8	4 574.3	22 745.0	-7 860.3	11.9	52.7	-11.9
Domestic currency	118.3	1 097.5	-781.2	-1 033.1	131.4	-40.4	-89.7
Foreign Currency	57 932.5	3 476.8	23 526.2	-6 827.2	9.2	57.1	-10.5
Head Off./Parent Co.	7 855.9	265.7	4 862.7	-3 159.8	4.5	79.0	-28.7
Overseas banks	49 559.8	3 883.2	18 278.0	-3 798.7	12.4	52.1	-7.1
Due to Specialised Institutions	11 019.8	-202.2	262.3	6748.2	-4.8	6.5	158.0
Securities sold under Repurchase Agreements	21 593.5	7 014.7	4 843.6	-3 396.9	53.4	24.0	-13.6
Other Liabilities	41 543.7	6 369.9	12 692.1	-13 659.6	17.6	29.9	-24.7
Capital Account	76 388.2	5 025.4	5 756.0	13 692.8	9.7	10.1	21.8

(1) Assets exclude contingent accounts
Data account for provisioning
Investments and Cash and Bank Balances adjusted to reflect reclassification of Certificates of Deposits from "other accounts designated as liquid" to BOJ securities

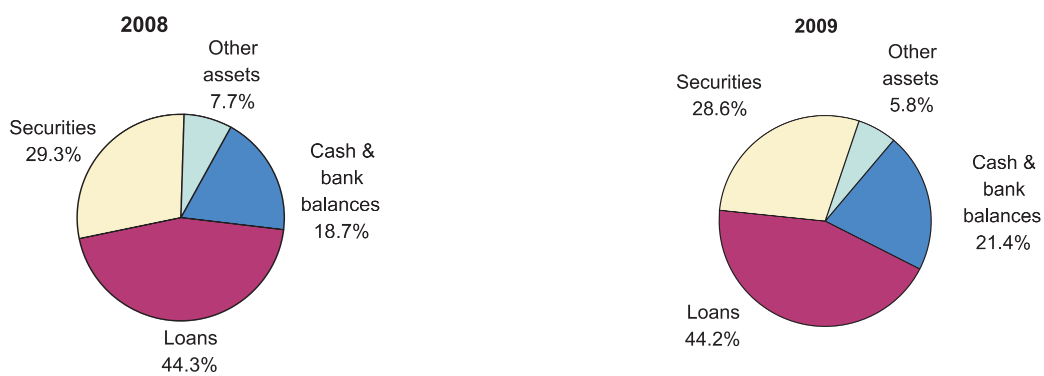
quarter when there was a significant build-up in deposits denominated in foreign currency. The placements during that period coincided with ratings downgrades of the Government's sovereign debt as well as heightened uncertainty in the domestic market surrounding the terms and timing of the IMF agreement. Consequent upon the reallocation of resources, the share of *Cash and Bank Balances* in the banks' assets increased to 21.4 per cent at end-2009 from 18.7 per cent at end-2008 (see **Chart 2)**.

The slower rate of growth in the commercial banking sector's asset base coincided with a reduction in funds borrowed from financial institutions, particularly overseas banks as well as a deceleration in the growth of local currency deposits (see **Table 4**). This reduction in borrowings was associated with the general tightening in the global financial markets. Growth in local currency deposits slowed to 1.4 per cent, well below the average of 11.2 per cent in the last five calendar years. The deceleration in the growth of local currency deposits largely reflected a reduction of 10.7 per cent in time deposits as well as slower growth in demand and savings deposits. The slowdown in local currency deposits was partly attributed to the contraction in domestic economic activity given the impact of the global recession. In addition, there was a general preference for holding foreign currency deposits during the periods of uncertainty.

During the first quarter of the year, foreign currency deposits responded positively to the heightened pace of depreciation of the Jamaica Dollar. The depreciation resulted in a build-up in the stock and an increase in the book value of these deposits. Another notable increase was reflected in the deposits of business firms and individuals, evidenced during the last quarter of the year when there was heightened uncertainty surrounding the terms and timing of the Stand-by Arrangement with the IMF. Consequently, the ratio of foreign currency deposits to total private sector deposit liabilities was 31.0 per cent at end-2009, relative to 30.1 per cent at end-2008 (see **Chart 3**).[6]

Chart 2:

The Composition of Commercial Bank Assets at 31 December 2008 and 31 December 2009



[6]Private sector deposit liabilities include Other Deposits.

Chart 3

Foreign Currency Deposits to Total Deposits Ratio
December 2006 to 2009

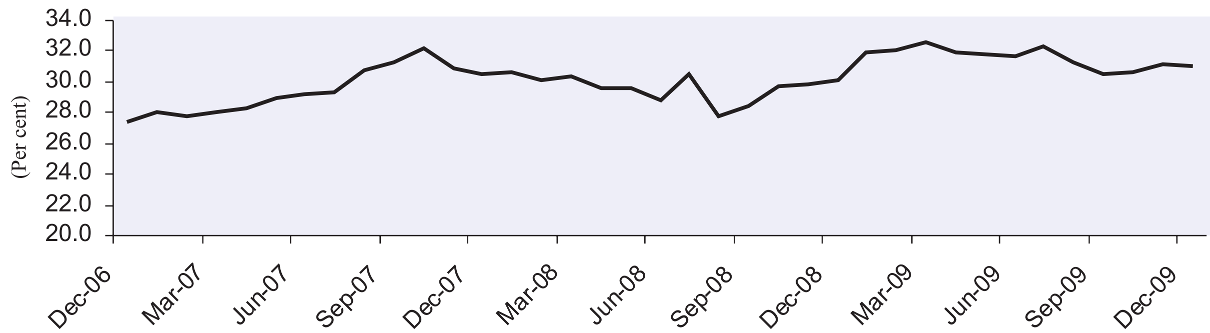


Table 5

COMMERCIAL BANK
LOCAL AND FOREIGN CURRENCY DEPOSITS (J$M)

	Stocks 2009	Flows 2007	Flows 2008	Flows 2009	% 2007	% 2008	% 2009
Deposits	359 022.7	37 872.3	13 961.0	22 309.5	13.3	4.3	6.6
Private Sector	287 536.4	38 105.0	11 885.9	16 354.7	17.2	4.6	6.0
Demand /1	63 344.1	12 920.1	-6 543.7	5 304.3	25.0	-10.1	9.1
Savings	169 598.3	18 590.4	12 013.6	10 294.7	14.4	8.2	6.5
Time	54 594.0	6 594.6	6 416.0	0 755.7	16.2	13.5	1.4
Government	30 724.6	0 436.4	-6 671.2	0 788.4	1.2	-18.2	2.6
Other	40 761.7	-0 669.1	8 746.3	5 166.4	-2.4	32.6	14.5

/1 Deposits adjusted for Net Items in the Process of Collection

Table 6

COMMERCIAL BANKS
LOCAL AND FOREIGN CURRENCY DEPOSITS /1
(PRIVATE SECTOR) (J$M)

	Stocks 2009	Flows 2007	Flows 2008	Flows 2009	% 2007	% 2008	% 2009
Private Sector Deposits	287 536.4	38 105.0	11 903.4	16 337.2	17.2	4.6	6.0
Local Currency	172 188.6	15 660.2	7 289.4	3 229.6	10.7	4.5	1.9
Foreign Currency	115 347.8	22 444.8	4 614.0	13 107.6	29.9	4.7	12.8

/1 Deposits adjusted for Net Items in the Process of Collection

2.3.3. Loans and Advances

For 2009, the stock of commercial bank loans and advances reflected a slower rate of increase of 4.2 per cent, relative to an expansion of 26.2 per cent in 2008 (see **Table 7**). The slowdown was influenced by a marked deceleration in the rate of growth in loans to the private sector as well as a reduction in loans to other financial institutions. In contrast, there was a notable increase in loans to the public sector, in particular, Central Government. In real terms, there was a decline of 5.4 per cent in total loans and advances in 2009 compared to an increase of 8.3 per cent in 2008. Loans outstanding to the private sector continued to dominate the commercial banks' loan portfolio, accounting for 86.4 per cent at end-2009, compared to 87.0 per cent at end-2008.

Commercial banks' loans to the private sector grew by 3.4 per cent in 2009, relative to an increase of 31.7 per cent in 2008. The growth in 2009 was primarily reflected in *Construction & Land Development*, *Agriculture & Fishing*, *Distribution* and *Electricity, Gas & Water.* Loans to *Construction & Land Development,* largely denominated in foreign currency, were granted mainly by one institution for construction projects in the tourism sector (see **Table 8**). Government incentives largely influenced growth in loans to *Agriculture & Fishing*. At the same time, there were significant net repayments in *Transport, Storage & Communication* and *Personal Loans*,

Table 7

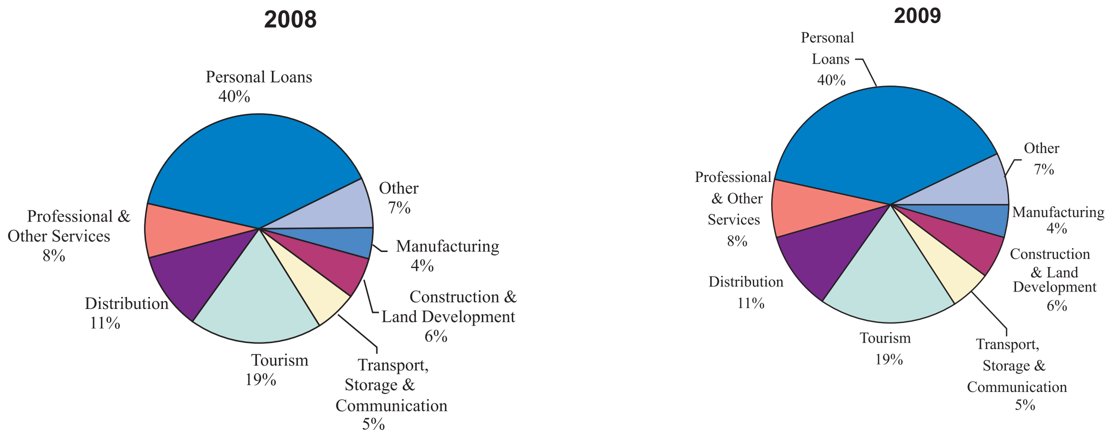
COMMERCIAL BANKS
TOTAL LOANS AND ADVANCES (J$MN)

	Stocks 2008	Stocks 2009	Flows 2007	Flows 2008	Flows 2009	% 2007	% 2008	% 2009
Public Sector	**30 775.4**	**33 898.2**	**3 726.2**	**-887.8**	**3122.8**	**13.3**	**-2.8**	**10.1**
Other Financial Institutions	**1 160.4**	**1 027.8**	**-676.0**	**410.6**	**-132.6**	**-47.4**	**54.8**	**-11.4**
Private Sector	**214 231.7**	**221 463.9**	**38 575.8**	**51 569.5**	**7 232.1**	**31.1**	**31.7**	**3.4**
Agriculture and Fishing	4 588.1	5 870.0	-134.7	2 424.3	1281.9	-5.9	112.0	27.9
Mining and Quarrying	700.9	432.3	-130.1	187.5	-268.6	-20.2	36.5	-38.3
Manufacturing	9 302.6	9 393.0	393.8	3 043.5	90.3	6.7	48.6	1.0
Construction & Land Development	12 902.1	19 909.4	931.8	3 924.7	7007.2	11.6	43.7	54.3
Transport, Storage & Communication	11 468.2	07 811.0	4 485.6	3 276.8	-3 657.2	121.0	40.0	-31.9
Tourism	40 769.0	39 649.5	5 280.5	11 206.2	-1 119.5	21.7	37.9	-2.7
Distribution	23 099.6	25 548.7	5 159.0	4 370.8	2 449.1	38.0	23.3	10.6
Professional & Other Services	16 769.6	16 675.3	2 589.3	4 943.1	-94.3	28.0	41.8	-0.6
Personal Loans	84 877.3	83 716.6	17 780.4	11 175.3	-1 160.8	31.8	15.2	-1.4
Electricity, Gas & Water	3 353.5	4 882.4	2 215.2	948.1	1 528.9	1 165.3	39.4	45.6
Entertainment	414.8	530.9	-5.5	129.0	116.2	-1.9	45.1	28.0
Overseas Residents	5 986.2	7 044.9	10.2	5 940.1	1 058.8	28.4	12 883.5	17.7
TOTAL	**246 167.5**	**256 389.9**	**41 626.0**	**51 092.4**	**10 222.3**	**27.1**	**26.2**	**4.2**

** Private Sector loans exclude debentures*

Chart 4

Distribution of Private Sector Loans and Advances as at 31 December 2008 and 31 December 2009



mainly that of two large companies which provide communication services. *Personal Loans* declined by 1.4 per cent relative to an increase of 15.2 per cent in 2008, mainly reflecting a deceleration in the growth in instalment credit which includes financing for motor cars. For 2009, there was further weakening in the demand for motor cars evidenced by a decline of 5.9 per cent in loans outstanding for motor cars relative to an increase of 19.8 per cent in 2008. This reduction may be attributed largely to the growth in job losses, a decline in real income and the general slowdown in the economy.

Loans and advances denominated in foreign currency declined by 0.3 per cent in 2009 in contrast to an expansion of 24.5 per cent in 2008. The decline reflected reductions in credit extended to the private sector as well as other financial institutions, the impact of which was partly offset by a notable increase in loans to the public sector (see **Table 8**). There was a decline of 3.4 per cent in foreign currency loans to the private sector in contrast to the expansion of 36.4 per cent in 2008 and the average growth of 20.9 per cent for the last five years. Loans and advances to the public sector increased by 16.3 per cent during 2009, solely reflected in an expansion in credit to Central Government. Consequent on this increase, the proportion of foreign currency loans to total loans and advances increased to 49.5 per cent at end-2009, from 46.1 per cent at end-2008.

The ratio of non-performing loans (3 months and over) to total loans increased to 4.2 per cent at end-2009 from 2.6 per cent at end-2008. The ratio of commercial banks' loans (net of provisions) to deposits declined to 70.1 per cent at end-2009, from 72.6 per cent at end-2008 (see **Chart 5**).

2.3.4. Liquid Assets

There was an increase of 4.3 per cent in the total domestic currency liquid assets of the commercial banks in 2009. This largely reflected an increase in the cash reserves consequent upon the increase

Chart 5

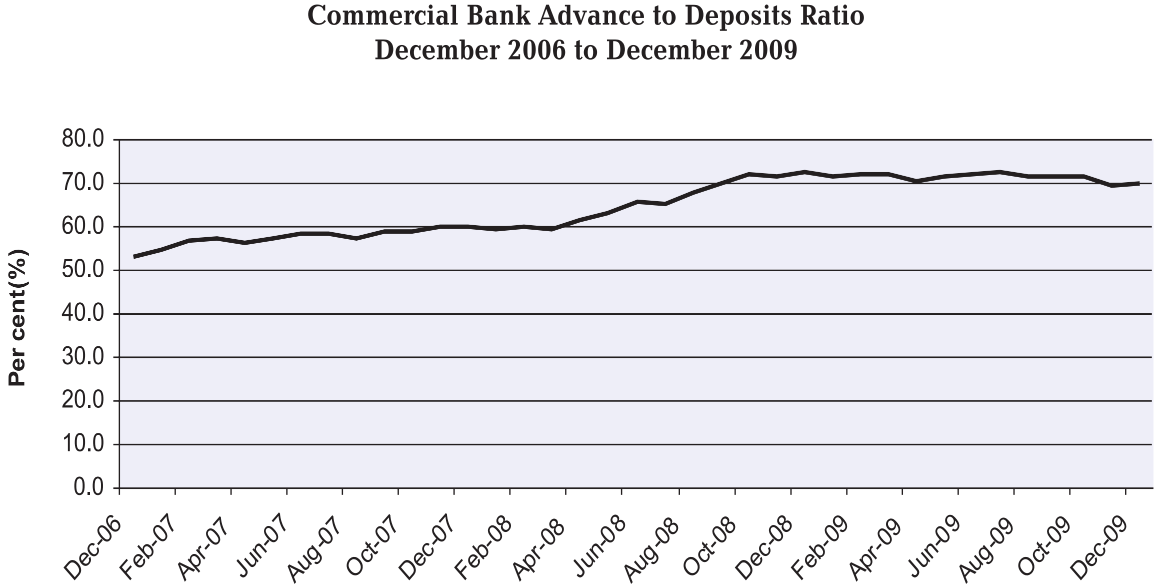


Table 8

COMMERCIAL BANKS
FOREIGN CURRENCY LOANS AND ADVANCES (US$000)

	Stocks 2009	Flows 2007	Flows 2008	Flows 2009	% 2007	% 2008	% 2009
Public Sector	**270 479**	**38 112**	**-39 665**	**37 964**	**16.3**	**-14.6**	**16.3**
Other Financial Institutions	**10 356**	**-10 610**	**6 220**	**-2 574**	**-61.3**	**92.7**	**-19.9**
Private Sector*	**1 130 594**	**192 894**	**312 183**	**-39 212**	**29.0**	**36.4**	**-3.4**
Agriculture	25 605	1 325	16 093	2 227	22.2	220.9	9.5
Mining & Quarrying	102.0	-1690	-1525	-1861	102.0	103.0	104.0
Manufacturing	50 679	-23 821	28 186	-10 772	-41.7	84.7	-17.5
Const., & Land Development	164 956	21 963	25 772	59 848	38.3	32.5	56.9
Transport, Storage & Comm.	60 850	38 510	15 495	-26 112	116.8	21.7	-30.0
Electricity, Gas & Water	50 255	31 650	-4 827	23 417	211 000.0	-15.2	87.3
Distribution	128 014	51 181	39 390	-14 760	98.0	38.1	-10.3
Tourism	415 188	45 990	85 238	-64 408	13.2	21.6	-13.4
Entertainment	1 625	-453	-19	447	-27.5	-1.6	37.9
Professional & Other Services	73 515	9 576	20 510	1 357	22.8	39.7	1.9
Personal Loans	86 114	18 570	14 192	-8 461	30.0	17.7	-8.9
Loans to Overseas Residents	73 691	93	73 678.0	-134	172.2	50 121.1	-0.2
TOTAL	**1 411 429**	**220 396**	**278 738**	**-3 822**	**24.1**	**24.5**	**-0.3**

Private sector loans excluding debentures* in the CRR during the first quarter of the year. The impact of this increase was partially offset by a significant decline in the commercial banks' holdings of BOJ securities. At end-2009, the ratio of average liquid assets to prescribed liabilities was 36.6 per cent relative to 36.9 per cent at end-2008 (see **Table 9A). Given the reduction in holdings of securities, the banks' excess reserves as a proportion of prescribed liabilities decreased to 8.6 per cent at end-2009 from 11.9 per cent at end-2008.

The entities' liquid assets denominated in foreign currency increased by 8.0 per cent during 2009. This largely reflected the special treatment of foreign currency loans granted by one institution. The commercial banks' excess reserves increased to US$354.0 million at end-2009 from US$275.1 million at end-2008 (see **Table 9B**).

2.3.5. Interest Rates and Spreads

During 2009, in the context of the easing of monetary policy, there was a narrowing in the overall interest rate spread of the commercial banks by 2 basis points. This reflected declines of 59.0 basis points and 57.0 basis points in the weighted average loan and deposit rates, respectively. The reduction in the weighted average loan rate was evidenced in each consecutive quarter of the year (see **Table 10**).

Table 9A

COMMERCIAL BANKS
LIQUID ASSETS (DOMESTIC CURRENCY)

	2007	2008	2009			
	Dec	Dec	Mar	Jun	Sep	Dec
Statutory Liquidity (%)						
Cash Reserve Ratio	9.0	11.0	14.0	14.0	14.0	14.0
Liquid Assets Ratio	23.0	25.0	28.0	28.0	28.0	28.0
Average Liquid Assets Holdings (%)	30.0	36.9	39.5	35.8	36.1	36.6
Liquid Assets (J$BN)						
Notes and Coins	6.5	7.0	5.3	5.1	6.0	7.3
Current Account	2.9	1.4	0.5	0.4	0.5	0.7
Cash Reserve	17.3	22.0	28.9	29.4	28.6	29.7
Treasury Bills	2.1	0.8	0.5	0.4	0.5	0.6
Local Registered Stocks*	-1.9	-0.7	1.6	1.0	0.8	-1.2
Other Government Securities	2.2	4.4	2.7	1.9	2.1	6.7
BOJ Open Market Instruments	30.9	34.3	29.6	29.1	24.1	24.3
Other Placements with BOJ	0.9	4.7	9.7	7.2	11.9	7.6
Repo Agreements with counter-parties	1.5	0.2	0.3	0.4	1.1	1.6
Total	62.3	74.1	79.1	74.9	75.6	77.3
Prescribed Liabilities (J$BN)	191.7	199.8	202.6	210.2	203.9	208.5
Excess Reserves	13.5	23.8	22.1	16.3	16.5	17.9

**Net of securities pledged as collateral*

Table 9B

COMMERCIAL BANKS LIQUID ASSETS (FOREIGN CURRRENCY)	2007 Dec	2008 Dec	2009 Mar	Jun	Sep	Dec
Statutory Liquidity (%)						
Cash Reserve Ratio	9.0	9.0	9.0	9.0	9.0	9.0
Liquid Assets Ratio	23.0	23.0	23.0	23.0	23.0	23.0
Liquid Assets (US$MN)						
Notes and Coins	27.6	23.2	23.6	21.7	21.6	23.3
Cash Reserve	167.4	170.6	189.6	190.0	193.1	181.7
Deposits with Approved Fin. Institution Abroad	684.4	424.5	448.2	419.6	349.4	407.4
Approved Foreign Gov. Securities	2.5	1.5	0.9	0.7	0.1	0.0
GOJ Securities	0.0	22.8	28.4	31.3	14.6	20.8
Other	2.8	67.8	103.3	175.8	142.0	134.3
Total	**884.7**	**710.4**	**794.0**	**839.1**	**720.8**	**767.5**
Prescribed Liabilities (US$MN)	1 855.0	1 891.5	1 722.1	1 727.1	1 752.2	1 651.5
Excess Reserves	456.9	275.1	363.0	407.0	282.3	354.0

Table 10

INTEREST RATES (per cent p.a.) IN THE DOMESTIC MARKET (End of Period)	2007 Dec	2008 Dec	2009 Mar	Jun	Sep	Dec
COMMERCIAL BANKS						
INTEREST RATE SPREAD	**12.18**	**11.62**	**11.69**	**11.53**	**11.49**	**11.60**
Overall Average Weighted Loan Rate	**17.11**	**16.78**	**16.58**	**16.49**	**16.30**	**16.19**
Foreign Currency Average Weighted Loan Rate	**9.75**	**8.96**	**9.18**	**8.84**	**8.81**	**9.01**
Overall Average Weighted Deposit Rate	**4.92**	**5.16**	**4.89**	**4.96**	**4.81**	**4.59**
Demand	2.79	2.45	2.43	2.10	2.21	2.22
Savings	4.47	4.48	4.33	4.31	4.31	4.09
Time	6.99	7.37	6.99	7.08	6.70	6.40
Certificates of Deposit						
1-month	6.99	7.28	6.89	6.44	6.71	6.05
3-month	6.96	7.39	7.20	7.39	6.68	6.36
12-month	6.95	7.25	7.09	7.80	6.96	7.08
Foreign Currency Average Weighted Deposit Rate	**3.13**	**3.02**	**2.94**	**2.90**	**2.86**	**2.70**
Demand	2.35	1.72	1.52	1.20	1.31	1.22
Savings	2.31	2.00	1.98	1.99	1.99	1.94
Time	5.09	5.11	4.92	4.80	4.66	4.35
PRIVATE MONEY MARKET RATE	**12.60**	**25.00**	**20.25**	**19.80**	**14.50**	**12.75**
GOJ 6-MONTH TREASURY BILL YIELD	**13.34**	**24.45**	**21.77**	**21.05**	**17.35**	**16.80**
BOJ 6-MONTH REPURCHASE AGREEMENT RATE	**12.00**	**21.50**	**21.50**	**21.50**	**17.00**	**15.00**

With the exception of loans to commercial entities and Instalment Credit, the reduction in the overall interest rate spread was reflected in all categories of loans when December 2009 is compared with December 2008 (see **Table 11**).

2.4. Other Financial Intermediaries

2.4.1. Financial Institutions Act Licensees (FIAs)

The consolidated balance sheet of the FIA licensees expanded marginally in 2009, following a sharp contraction in 2008 when Pan-Caribbean Merchant Bank converted its operations to a commercial bank in June of that year. The expansion in the balance sheet was mainly reflected in increases in *Investments, Cash and Bank Balances with Commercial Banks*, *Balances with Bank of Jamaica* and *Accounts Receivables.* However, the impact of these increases was partly offset by further contraction in *Loans and Advances* in the context of weak domestic demand brought about by the global financial crisis.

2.4.1.1. Assets & Liabilities

The assets of the FIA licensees amounted to $32 854.3 million at end-2009, representing an increase of 0.7 per cent for the calendar year, in contrast to a decline of 30.0 per cent in 2008 (see **Table 12**). The marginal growth in 2009 reflected increases in *Investments, Cash and Bank Balances with Commercial Banks*, *Balances with Bank of Jamaica* and *Accounts Receivables*. *Investments* increased by 7.0 per cent relative to a reduction of 36.1 per cent in 2008, and mainly reflected an increase in the holdings of Bank of Jamaica OMO securities.

Cash and Bank Balances with Commercial Banks increased by 61.4 per cent as against a decline of 88.6 per cent in 2008 and largely reflected expansions in foreign currency placements with overseas banks. There was also growth in *Balances with Bank of Jamaica,* mainly resulting from the increase in the cash reserve requirement. The domestic and foreign currency cash reserve

Table 11

COMMERCIAL BANK INTEREST RATE SPREADS (BY SECTOR)

	2006	2007	2008	2009			
	Dec	Dec	Dec	Mar	Jun	Sep	Dec
OVERALL AVERAGE WEIGHTED LOAN RATE	**17.59**	**17.11**	**16.78**	**16.58**	**16.49**	**16.30**	**16.19**
OVERALL AVERAGE WEIGHTED DEPOSIT RATE	**5.02**	**4.92**	**5.16**	**4.89**	**4.96**	**4.81**	**4.59**
OVERALL SPREAD	**12.57**	**12.18**	**11.62**	**11.69**	**11.53**	**11.49**	**11.60**
Installment Credit	16.63	16.02	15.23	15.60	16.21	16.52	16.88
Mortgage	8.07	2.48	2.42	4.75	2.76	1.41	2.36
Personal	22.62	20.50	19.78	19.18	19.28	19.62	19.41
Commercial	8.34	8.95	7.85	8.44	8.11	7.88	8.09
Central Government	8.81	10.31	17.17	10.84	9.59	8.80	8.96
Other Public Sector	7.10	4.59	8.18	6.40	5.84	5.29	6.10

Table 12

ASSETS AND LIABILITIES PF FIAs (J$M)	Stock 2008	Stock 2009*	Flows 2008	Flows 2009	% Change 2008	% Change 2009
Assets (1)						
Cash and Bank Balances with Commercial Banks	302.1	487.5	-2 358.8	185.4	-88.6	61.4
Balances with Other Financial Institutions	7.2	7.9	-0.7	0.7	-8.5	10.2
Balances with Bank of Jamaica	976.3	1 134.1	62.1	157.8	6.8	16.2
Investments	15 490.6	16 578.1	-8 751.4	1 087.5	-36.1	7.0
Securities Purchased with a View to Resale	3 190.1	3 077.6	253.0	-112.5	8.6	-3.5
Loans & Advances (net of provision)	10 710.4	9 288.9	-3 422.2	-1 421.5	-24.2	-13.3
Accounts Receivable	1 170.6	1 643.3	-8.1	472.7	-0.7	40.4
Other Assets	446.4	395.7	386.0	-50.8	638.7	-11.4
TOTAL	**32 617.4**	**32 854.3**	**-13 951.3**	**236.9**	**-30.0**	**0.7**
Liabilities and Capital						
Deposits	14 519.4	13 016.9	-2 633.9	-1 502.5	-15.4	-10.3
Balances due to Commercial Banks	542.3	123.1	-30.5	-419.2	-5.3	-77.3
Balances due to Specialised Institutions	143.8	646.7	-196.4	502.8	-57.7	349.6
Borrowings from Other Financial Institutions	673.7	297.8	-583.7	-376.0	-46.4	-55.8
Balances due to Bank of Jamaica	4 141.6	5 393.7	4 141.6	1 252.1	0.0	30.2
Securities sold under Repurchase Agreements	7 279.8	7 790.1	-10 832.5	510.4	-59.8	7.0
Other Liabilities	656.3	460.3	-109.6	-195.9	-14.3	-29.9
Capital & Reserves	4 660.4	5 125.6	-3 706.4	465.2	-44.3	10.0
TOTAL	**32 617.4**	**32 854.3**	**-13 951.3**	**236.9**	**-30.0**	**0.7**
Memorandum Items						
Foreign Currency Assets	19 679.8	19 942.8	-10 172.2	263.0	-34.1	1.3
Foreign Currency Liabilities	12 634.8	9 890.8	-3 686.4	-2 744.0	-22.6	-21.7

(1) Assets exclude contingent accounts

** Provisional Data*

requirement (CRR) of the FIAs was increased to 13.0 per cent and 11.0 per cent, respectively, from 11.0 per cent and 9.0 per cent on 02 January. An additional 1.0 per cent increase in the domestic CRR was implemented on 06 February. There was also an increase of 40.4 per cent in *Accounts Receivables,* mainly associated with the entities' loan portfolio.

In the context of weak domestic demand and the global financial crisis, *Loans and Advances* declined in 2009, continuing the trend observed in 2008. The decline in 2009 reflected a decrease in both domestic and foreign currency denominated loans. However, the sub-sector's holdings of foreign currency assets grew by 1.3 per cent for 2009 in contrast to a decline of 34.1 per cent in 2008, mainly reflecting an increase in the placements with overseas commercial banks. Consequently, the ratio of foreign currency assets to total assets increased to 60.7 per cent at end-2009 from 60.3 per cent at end-2008.

During 2009, the FIAs licensees relied heavily upon the Central Bank's intermediation facility, which was established in 2008 for institutions in need of US or Jamaica Dollar liquidity. This was evidenced in a notable increase in B*alances due to Bank of Jamaica*. In addition, increased financing was garnered from *Specialized Institutions* and *Securities sold under Repurchase Agreements*. The reliance upon these sources of financing occurred in a context where there was further contraction in the entities' deposit base. The deposits of these institutions contracted by 10.3 per cent during 2009, in contrast to a reduction of 15.4 per cent in 2008, consistent with the slowdown in domestic economic activity.

Sectoral Distribution of Loans

There was further contraction in the stock of private sector loans held by the FIAs licensees during 2009. The impact of this on the institutions' loan portfolio was partially offset by an expansion in loans to the public sector, primarily Selected Public Entities. Loans and advances to the private sector declined by 10.0 per cent in 2009 relative to a decline of 23.4 per cent in 2008 (see **Table 13**). With the exception of *Professional & Other Services* and *Tourism* there was net repayment in all other sectors. At end-2009 loans extended to the *Construction & Land Development* sector continued to account for the largest proportion of total outstanding loans. (see **Chart 6**).

Table 13

SECTORAL DISTRIBUTION OF LOANS AND ADVANCES OF INSTITUTIONS LICENCED UNDER THE FINANCIAL INSTITUTIONS ACT

(J$M)

	2009* Stock	2008 Flows	2009 Flows	2008 (%)	2009 (%)
Public Sector	**135.1**	**-308.5**	**8.3**	**-70.9**	**6.5**
Financial Institutions	**501.9**	**-13.9**	**-125.5**	**-2.2**	**-20.0**
Private Sector	**9 054.4**	**-3 067.0**	**-1 009.3**	**-23.4**	**-10.0**
Agriculture & Fishing	18.7	-1 001.2	-9.7	-97.2	-34.1
Mining & Quarrying	32.3	37.0	-15.0	361.8	-31.7
Manufacturing	340.4	-155.6	-23.1	-30.0	-6.4
Construction & Land Development	2 211.7	-462.6	-303.2	-15.5	-12.1
Transport, Storage & Communication	259.7	-398.8	-183.7	-47.4	-41.4
Tourism	459.9	-527.1	176.4	-65.0	62.2
Distribution	1 184.5	-486.3	-92.1	-27.6	-7.2
Professional & Other Services	2 101.4	67.5	499.5	4.4	31.2
Personal Loans	1 863.6	-316.5	-587.8	-11.4	-24.0
Electricity	14.5	2 436.7	-2 436.8	16 694.4	-99.4
Entertainment	21.3	-64.8	-3.2	-72.5	-13.1
Overseas Residents	546.4	48.6	-274.4	6.3	-33.4
TOTAL	**9 691.4**	**-3 389.3**	**-1 126.5**	**-23.9**	**-10.4**

** Provisional*
Totals include provisions for loan losses

Chart 6

Sectoral Distribution of Loans and Advances (2008)

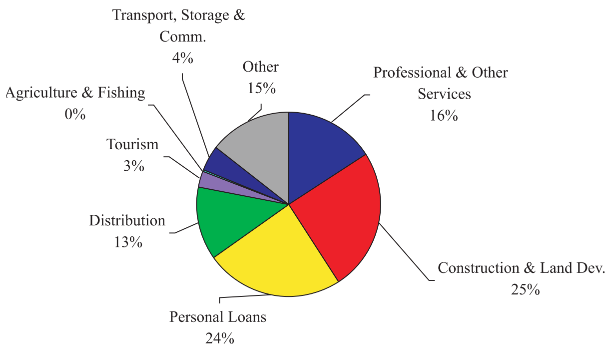
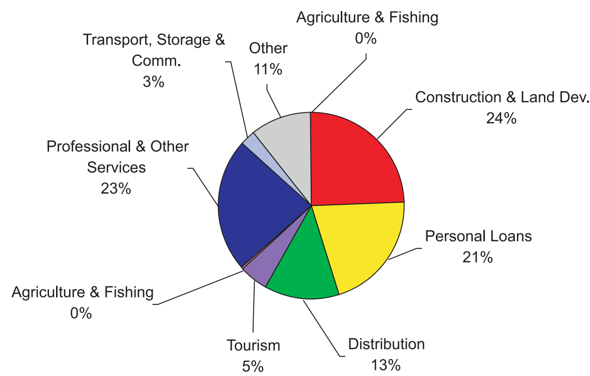


Chart 7

Sectoral Distribution of Loans and Advances (2009)



At end-2009, the quality of the loan portfolio, as indicated by the ratio of past due private sector loans (three months and over) to total loans, deteriorated to 8.9 per cent from 5.8 per cent at end-2008. The ratio for the overall loan portfolio was 8.3 per cent, relative to 5.4 per cent in 2008.

2.2.2. Building Societies

2.4.2.1. Overview

The balance sheet of the building societies grew at a faster rate during 2009, than in 2008. Notwithstanding this acceleration, there was a sharp deceleration in the growth of mortgage loans within the context of a slowdown in the economy. Mortgage loans, however, continued to account for the largest increase in the assets of building societies, with growth of 9.3 per cent in 2009. Concurrently, there was a relatively large build-up in *Investments*, *Accounts Receivables* and *Other Assets* as well as faster rate of growth in *Securities Purchased with a View to Resale*.

2.4.2.2. Assets and Liabilities

The total assets of the building societies stood at $159 295.7 million as at end-2009, reflecting growth of 15.2 per cent for the year relative to an increase of 12.7 per cent in 2008 (see **Table 14**). This improved position reflected an increase in the growth rate in *Investments*, mainly the acquisition of additional GOJ domestic currency denominated securities. Proceeds from the unwinding of foreign currency securities as well as the drawdown of cash and bank balances with overseas banks financed the acquisition of the domestic securities as well as a build-up in balances at the BOJ. The build-up in balances partly reflected the institutions' placements in BOJ's foreign currency deposit facility. In addition, there was an increase in the institutions' cash reserve account influenced by the impact of the higher requirements on a larger stock of liabilities. There was also growth in the level of *Securities Purchased with a View to Resale* in a context where liquidity conditions during the year remained tight. However, there was further slowdown in the rate of growth in mortgages as a result of a reduction in household income and general uncertainty in the economic environment.

The assets of the building societies continued to be financed largely from the *Savings Funds* which grew by 18.0 per cent during 2009, a faster rate than the 10.6 per cent in the previous year. This acceleration was reflected in both *shareholders' savings* and *depositors' savings* denominated in foreign and domestic currency. The increase in savings coincided with general economic uncertainty. *Capital and Reserves* increased by 15.6 per cent during 2009, in contrast to a decline of 3.8 per cent in the previous year. This increase stemmed largely from growth in reserve holdings. Against this background, the performance ratios of the building societies showed mixed results. The liquid assets to total assets ratio increased to 16.2 per cent and the liquid assets to savings funds ratio grew to 23.4 per cent, relative to 15.2 per cent and 22.6 per cent, respectively, in 2008. In contrast, the Advance to Savings Funds ratio was below that of 2008 (see **Table 14**).

Table 14

ASSETS AND LIABILITIES OF BUILDING SOCIEITIES (J$JM)

	STOCK 2008	STOCK 2009	FLOW 2008	FLOW 2009	Per Cent 2008	Per Cent 2009
ASSETS						
Cash and Balances with Commercial Banks	13 628.4	12 381.2	-6 803.8	-1 247.3	-33.3	-9.2
Balances with Other Financial Institutions	35.3	41.8	6.6	6.56	22.9	18.6
Balances with Bank of Jamaica	7 389.6	13 318.5	5 512.8	5 928.9	293.7	80.2
Investments (net of provision)	22 643.4	23 001.1	-4 236.5	357.68	-15.8	1.6
Securities Purchased with View to Resale	11 651.5	18 497.7	3 726.0	6 846.2	47.0	58.8
Loans and Advances (net of provision)	75 441.2	83 577.7	17 182.9	8 136.4	29.5	10.8
- of which Mortgages	74 728.0	81 643.2	17 047.9	6 915.2	29.6	9.3
Accounts Receivables	3 797.5	4 574.8	-61.0	777.35	-1.6	20.5
Fixed Assets	2 364.7	2 457.1	282.6	92.4	13.6	3.9
Other Assets	1 355.9	1 445.9	-54.7	90.0	-3.9	6.6
TOTAL	**138 307.5**	**159 295.7**	**15 554.9**	**20 988.2**	**12.7**	**15.2**
LIABILITIES and CAPITAL						
Savings Fund	93 285.3	110 093.6	8 908.0	16 808.4	10.6	18.0
Due to Commercial Banks	5 412.3	3 974.8	1 587.6	-1 437.4	41.5	-26.6
Due to Specialized Institutions	14 098.2	16 579.9	4 846.8	2 481.7	52.4	17.6
Due to Other Financial Institutions	1 102.6	458.31	211.73	-644.30	23.8	-58.4
Other Liabilities	4 013.2	4 609.1	806.42	595.87	25.1	14.8
Capital and Reserves	20 395.9	23 580.0	-805.55	3 184.1	-3.8	15.6
TOTAL	**138 307.5**	**159 295.7**	**15 554.9**	**20 988.2**	**12.7**	**15.2**
INDICATIVE RATIOS (Per Cent)						
Liquid Assets : Total Assets	15.2	16.2				
Liquid Assets : Savings Fund	22.6	23.4				
Advance : Savings Fund	80.9	75.9				
Mortgage Loans : Savings Fund	80.1	74.2				

2.4.2.3. Building Societies' New Mortgage Loans

During the review year, there was a decline in the value of new mortgage loans issued by building societies (see **Table 15**). There was also a fall-off in the number of new mortgages issued during 2009, relative to 2008. The decline in the value of new mortgages was largely reflected in a 43.0 per cent reduction in residential loans, in contrast to an expansion of 27.9 per cent at end-2008. The number of new mortgage accounts contracted by 37.7 per cent during 2009, representing the third consecutive year of reduction. The contraction in 2009 was mainly reflected in a decline of 37.8 per cent in the number of residential new accounts.

During the first four months of 2009, there was a general increase in mortgage loan rates to 12.72 per cent. This was in keeping with the tightening in monetary policy in 2008 and at the beginning of the review year. Subsequently, with the easing of monetary policy, the weighted average mortgage loan rate charged by building societies declined to 12.57 per cent at end-2009.

2.5. Development Banks

2.5.1. Development Bank of Jamaica

During 2009, the Development Bank of Jamaica (DBJ) continued to provide medium and long-term financing, at concessionary interest rates, through Approved Financial Institutions (AFIs) and People's Cooperative Banks (PCB).[7] With regard to local currency loans, approvals grew by approximately 39.6 per cent and disbursements increased by approximately 47.9 per cent during

Table 15

Building Societies New Mortgage Loans 2008 to 2009

	Stock 2008	Stock 2009	Flow 2008	Flow 2009	% Change 2008	% Change 2009
Value of New Accounts (J$M)						
Residential	18 655.5	10 637.1	4 072.8	-8 018.4	27.9	-43.0
Commercial	134.8	128.3	-61.9	-6.5	-31.5	-4.8
Agricultural & Other	13.9	29.7	-714.0	15.8	-98.1	113.7
TOTAL	**18 804.2**	**10 795.2**	**3 296.9**	**-8 009.0**	**21.3**	**-42.6**
Number of New Accounts						
Commercial	18	9	2	-9	12.5	-50.0
Agricultural & Other	8	10	-215	2	-96.4	25.0
Residential	3 885.0	2 416.0	166	-1 469.0	4.5	-37.8
TOTAL	**3 911**	**2 435**	**-47**	**-1 476.0**	**-1.2**	**-37.7**
Weighted Average						
Mortgage Loan Rate (%)	12.56	12.57	-0.04	0.01		

[7] AFIs include commercial banks and merchant banks.

2009. This compares to respective increases of 22.0 per cent in approvals and 5.9 per cent in disbursements in 2008. The improvement in 2009 was largely due to changes in the approval process and limits which led to improved efficiency. There were significant growth in local currency approvals and disbursements to the manufacturing and services sectors (see **Table 17**).

During the year, DBJ established an AFI **Small and Medium-sized Enterprise (SME) Wholesale Window** with renewed emphasis on lending to the SME sector. A **Micro-Finance Window** was also established, which facilitated the approval of four microfinance institutions for the on-lending of DBJ funds.

Total assets of the DBJ increased by 11.9 per cent during the year (see **Table 16**). The expansion in assets was largely due to increases of 12.4 per cent and 30.9 per cent in **GOJ Infrastructural Loan Programmes** and **Loans to Financial Institutions** (LFIs).

Table 16

DEVELOPMENT BANK OF JAMAICA
ASSETS AND LIABILITIES(J$MN)

ASSETS	2008	2009	Change	% change
Cash and Bank Balances	787.0	334.4	-452.6	-57.5
Receivables and Prepayments	4 524.0	4 767.4	243.4	5.4
Investments	4 628.0	4 501.3	-126.7	-2.7
Securities-Resale Agreements	1 450.0	1 293.6	-156.4	-10.8
Loans to Financial Institutions	9 313.0	12 192.0	2 879.0	30.9
-Loans to Co-operative Banks	884.0	1 146.2	262.2	29.7
-Loans to AFIs	3 740.0	5 511.9	1 771.9	47.4
-Other Loans	4 689.0	5 533.9	844.9	18.0
GOJ Infrastructural Loan Programmes	24 397.0	27 429.9	3 032.9	12.4
Other Assets	0.0	0.0	0.0	
Fixed Assets	627.0	634.6	7.6	1.2
TOTAL	**45 726.0**	**51 153.2**	**5 427.2**	**11.9**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholder's Equity	6 922.0	9 330.5	2 408.5	34.8
Current Liabilities	1 751.0	2 337.4	586.4	33.5
Long-term Liabilities	33 420.0	38 772.6	5 352.6	16.0
Short-term Liabilities	407.0	437.5	30.5	7.5
Other Liabilities	3 226.0	275.2	-2 950.8	-91.5
TOTAL	**45 726.0**	**51 153.2**	**5 427.2**	**11.9**

The expansion in LFIs reflected increases in **Loans to Co-operative Banks, Other Loans** and **Loans to AFIs**. The impact of these increases was partially offset by a reduction of 57.5 per cent in **Cash and Bank Balances** as well as declines of 10.8 per cent and 2.7 per cent in **Securities-Resale Agreements** and **Investments**, respectively.

For 2009, the expansion in total assets was largely financed by increases of 34.8 per cent and 33.5 per cent in **Shareholder's Equity** and **Current Liabilities**, respectively. The impact of these increases however, was largely offset by a significant decline of 91.5 per cent in **Other Liabilities** of the DBJ.

During the year, funding for new loans was sourced from the Caribbean Development Bank, the Petrocaribe Development Fund, the China Development Bank, as well as reflows from previous loan issues.

Table 17

LOAN APPROVALS AND DISBURSEMENTS TO AFI's, PCB AND INVESTMENTS BY SECTOR

JANUARY - DECEMBER 2009

APPROVALS

	Local Currency J$MN			Foreign Currency US$MN		
Sector	**2008**	**2009**	**% change**	**2008**	**2009**	**% change**
Agriculture	445.3	575.8	29.3	3.0	0.0	-100.0
Agro-Industry	231.3	127.0	-45.1	0.0	0.0	0.0
Manufacturing	104.0	952.7	816.1	0.0	0.0	0.0
Mining & Quarrying	199.4	10.0	-95.0	0.0	0.0	0.0
Tourism	191.3	304.1	59.0	5.9	0.0	-100.0
Other Services	195.5	796.3	307.3	0.0	2.5	0.0
SME(unknown)**	650.0	50.0	-92.3	0.0	0.0	0.0
Total	**2 016.8**	**2 815.9**	**39.6**	**8.9**	**2.5**	**-71.9**

DISBURSEMENTS

	Local Currency J$MN			Foreign Currency US$MN		
Sector	**2008**	**2009**	**% change**	**2008**	**2009**	**% change**
Agriculture	421.4	588.1	39.6	0.0	0.0	0.0
Agro-Industry	91.1	244.6	168.5	0.0	0.0	0.0
Manufacturing	140.0	806.9	476.4	0.0	0.0	0.0
Mining & Quarrying	137.6	10.0	-92.7	0.0	0.0	0.0
Tourism	136.2	304.5	123.6	4.0	4.6	13.8
Other Services	1 064.8	1 077.0	1.1	0.0	0.0	0.0
SME (unknown)	75.0	25.0	-66.7	0.0	0.0	0.0
Total	**2 066.1**	**3 056.1**	**47.9**	**4.0**	**4.6**	**13.8**

**SME (unknown) refers to individual sectors not identified.

2.5.1.1. Loan Approval and Disbursements

During the year, there was an increase in both local currency approvals and disbursements. Local currency loan approvals amounted to $2 815.9 million, an increase of 39.6 per cent relative to 2008 (see **Table 17**). These approvals were mainly to **Manufacturing, Other Services** and **Agriculture**, which accounted for 33.8 per cent, 28.3 per cent and 20.4 per cent of local currency loan approvals, respectively (see **Table 18**). With the exception of **Agriculture**, the shares of total loans approved for these sectors increased, relative to 2008.

Local currency loan disbursements amounted to $3 056.1 million, an increase of 47.9 per cent relative to 2008. This reflected increases in all sectors except for **SME** and **Mining & Quarrying**. **Other Services** and **Manufacturing** accounted for 35.3 per cent and 26.4 per cent of disbursements, respectively.

During 2009, foreign currency loan approvals amounted to US$2.5 million, reflecting a 71.9 per cent reduction relative to 2008. Approvals were granted for loans in **Other Services**. Foreign currency loan disbursements increased to US$4.6 million in 2009 which represented a 13.8 per cent increase relative to 2008. **Tourism** remained the sole sector to which foreign currency loans were disbursed.

2.5.2. National Export-Import Bank of Jamaica

2.5.2.1. Introduction

During 2009, the National Export-Import Bank of Jamaica Limited (EXIM Bank) continued to facilitate the productive and exporting sectors through short and medium term loan programmes, as well as trade credit insurance (TCI).

Table 18

LOAN APPROVALS AND DISBURSEMENTS TO AFI's, NPCB AND INVESTMENT BY SECTOR

JANUARY - DECEMBER 2009

PROPORTIONS

	APPROVALS				DISBURSEMENTS			
Sector	Local Currency 2008	Foreign Currency 2008	Local Currency 2009	Foreign Currency 2009	Local Currency 2008	Foreign Currency 2008	Local Currency 2009	Foreign Currency 2009
Agriculture	22.1	33.7	20.4	0.0	20.4	0.0	19.2	0.0
Agro-Industry	11.5	0.0	4.5	0.0	4.4	0.0	8.0	0.0
Manufacturing	5.2	0.0	33.8	0.0	6.8	0.0	26.4	0.0
Mining & Quarrying	9.9	0.0	0.4	0.0	6.7	0.0	0.3	0.0
Tourism	9.5	66.3	10.8	0.0	6.6	100.0	10.0	100.0
Other Services	9.7	0.0	28.3	100.0	51.5	0.0	35.3	0.0
SME	32.1	0.0	1.8	0.0	3.6	0.0	0.8	0.0
	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The deepening of the financial crisis during 2009, resulted in a reduction in productive activity in most sectors as well as a contraction of available low-cost Jamaica Dollar funds for on-lending. As a result, the EXIM Bank was unable to accommodate the demand for local currency funding during the six-month period April-September 2009. Despite these challenges, the EXIM Bank projects to achieve loan utilization of $5.5 billion by the end of the financial year in March 2010. This is in comparison to the loan utilization of $6.5 billion for the financial year ended March 2009 which was 35.0 per cent above the previous year.

The EXIM Bank continued to fund priority sectors such as Tourism, Agri-Business, Manufacturing, Mining and Quarrying, identified to support economic growth. Special emphasis was placed on the agricultural sector, with coffee producers utilizing approximately US$5.0 million during the year. Overall loans to the agricultural sector accounted for approximately 40.0 per cent of loan utilization. The development and expansion of small and medium-sized enterprises, particularly those providing vital linkages to the exporting sectors, also continued to benefit from the EXIM Bank's financial support. The EXIM Bank sourced loan funds to facilitate the growth of entrepreneurs from the Development Bank of Jamaica (DBJ) and the National Insurance Fund (NIF).

The EXIM Bank continued to explore financing opportunities for emerging sectors such as the creative industries. Accordingly, funding was provided to the fine arts sub-sector to facilitate training, enhance market capabilities and capacity building.

During the year, increased efforts were made to source funds at competitive rates of interest. In this regard, a Framework Co-operation Agreement on Trade Financing was executed between China Eximbank and EXIM Bank of Jamaica. Under this agreement, Jamaica will be able to access up to US$100.0 million to foster bilateral trade with China.

2.5.2.2. Details of Lending Operations 2009

During 2009, the EXIM Bank disbursed domestic and foreign currency loans of approximately $2.5 billion and US$32.7 million, respectively. Total disbursement of approximately $5.4 billion, represented a decline of 17.0 per cent relative to 2008. Local currency disbursements declined by 25.3 per cent relative to that achieved for 2008. The decline was due mainly to an inadequate supply of local dollar loan funds during the first half of the year and to a lesser extent to the general contraction in production, resulting in lower than projected demand for financing (see **Table 19**)

The Agro-Processing and Food & Beverage sectors continued to be the main recipients of the EXIM Bank's funding in 2009, collectively accounting for 68.1 per cent of total local currency disbursements (see **Table 20**).

Table 19

LOCAL CURRENCY DISBURSEMENTS				
Facilities	**2008 J$MN**	**2009 J$MN**	**Change J$MN**	**Change %**
Bankers Export Credit Facility	487.0	143.3	-343.7	-70.6
Export Credit Facility	640.0	535.3	-104.7	-16.4
Insurance Policy Discounting Facility (IPDF)	41.1	30.0	-11.1	-27.0
Pre-Shipment/CoPack Facilities	1 231.5	1 074.0	-157.5	-12.8
Apparel Sector Financing	27.0	64.0	37.0	137.1
Modernization Fund for Exporters	554.7	132.2	-422.5	-76.2
SME Growth Initiative Loan	201.9	421.2	219.3	108.6
General Trade Line	59.7	42.0	-17.8	-29.7
JEA/Sbed	28.8	10.0	-18.8	-65.3
NIF	70.3	44.9	-25.4	-36.1
Information Communication Technology (ICT)	0.3	0.5	0.2	60.0
Total	**3 342.3**	**2 497.3**	**-845.0**	**-25.3**

Table 20

LOCAL CURRENCY LOANS BY INDUSTRY				
Industry	**2008**		**2009**	
	J$MN	**%**	**J$MN**	**%**
Agro Processing	1 612.0	48.2	1 187.6	47.5
Food & Beverage	991.3	29.7	514.3	20.6
Textile & Apparel	28.3	0.8	32.5	1.3
Manufacturing	309.3	9.3	506.5	20.3
Distribution/Services	346.9	10.4	192.7	7.7
Mining	54.5	1.6	64.5	2.6
Total	**3 342.3**	**100.0**	**2 498.1**	**100.0**

Table 21

FOREIGN CURRENCY DISBURSEMENTS				
Facility	**2008**	**2009**	**Change**	**Change**
	US$MN	**US$MN**	**US$MN**	**%**
Lines of Credit	28.5	17.9	-10.6	-37.0
Bankers Export Credit Facility	2.0	0.0	-2.0	-100.0
Cuban Line of Credit	6.6	2.6	-4.0	-59.8
Other Foreign Currency Loans	0.0	12.2	12.2	100.0
Export Growth Initiative Fund	0.2	0.0	-0.2	100.0
Total	**37.3**	**32.7**	**-4.6**	**-12.4**

Table 22

FOREIGN CURRENCY LOANS BY INDUSTRY				
Industry	2008		2009	
	US$MN	%	US$MN	%
Agro Processing	2.7	7.2	8.6	26.5
Distribution	22.5	60.3	6.1	18.6
Manufacturing	11.5	30.9	12.0	36.6
Services	0.6	1.6	6.0	18.4
Total	**37.3**	**100.0**	**32.7**	**100.0**

Foreign currency loan disbursement declined by 12.4 per cent relative to 2008. This was due primarily to a decline in demand for raw material through the Lines of Credit and the non-establishment of new Letters of Credit under the Cuban Lines of Credit due to problems which developed with Banco Nacional de Cuba (see **Table 21**). Other Foreign Currency Loans, financed by the EXIM Bank, was the sole facility which reflected an increase in foreign currency loan disbursements, in 2009.

During the year, the Manufacturing Industry was the major beneficiary of EXIM Bank's funds, followed by the Agro Processing Industry (see **Table 22**).

2.6. Financial Stability

2.6.1. Overview

The deposit-taking institutions remained resilient to stress testing conducted by the BOJ at the end of each quarter in 2009. The objective of the stress testing exercises was to determine the impact of extreme but plausible shocks to various risk factors such as credit quality, foreign exchange rates, domestic interest rates and liquidity on the capital adequacy ratios of the DTIs. The resilience of the system to the hypothetical shocks would have benefitted from improvements in the capital adequacy ratios (CARs) of these institutions, relative to 2008. The results of the stress tests revealed that the post-shock CARs of these institutions generally remained above the 10.0 per cent minimum benchmark in response to these shocks.

Some indicators of the robustness of the financial system, in particular, the index of macro-prudential indicators, deteriorated during 2009. This occurred in the context of continued worsening in public sector debt dynamics, weak performances in domestic GDP and private sector credit, as well as investor uncertainty in the domestic financial markets. While there were improvements in the micro-prudential indices for the commercial banks and building societies, the index for the FIAs showed some deterioration.

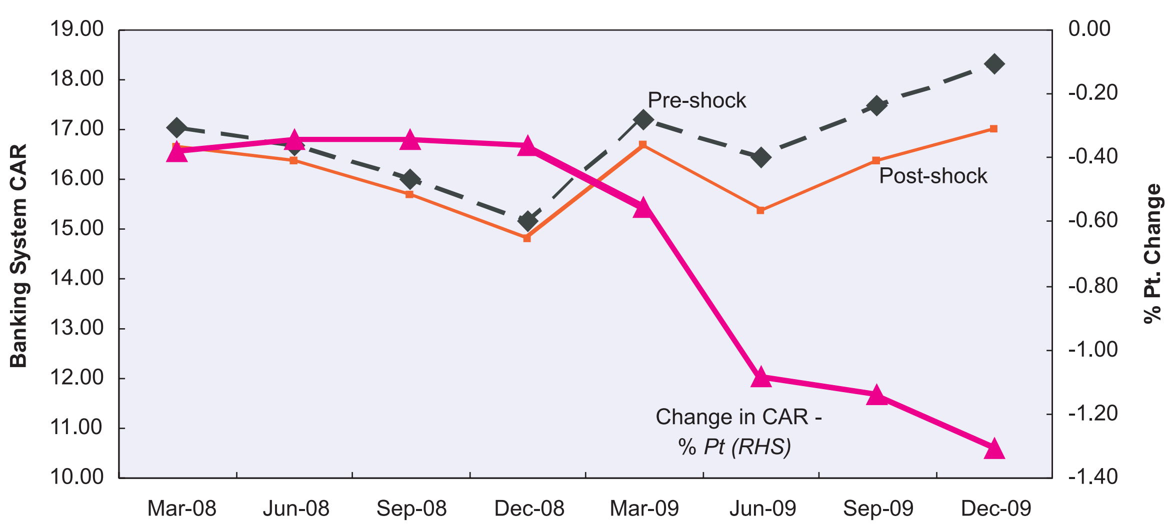
2.6.2. Credit Risk Stress Tests Results[8]

The ratio of NPLs to total loans increased to 4.5 per cent at end-2009, relative to 3.0 per cent at end-2008. Further indication of the deterioration in banks' loan quality in 2009 was evident in the increase in the ratio of NPLs net of provision to capital to 11.5 per cent, from 2.5 per cent at end-2008. Building societies' ratio of NPLs (net of provisions) to capital increased to 23.0 per cent at end-2009 from 10.0 per cent at end-2008, while commercial banks, credit unions and FIAs had NPLs net of provision to capital of approximately 8.6 per cent, 7.1 per cent and 10.8 per cent, respectively at end-2009. The noticeable deterioration in loan quality in 2009 was primarily influenced by the adverse impact on income arising from continued contraction in the domestic economy, coupled with the effect of relatively high interest rates. Nonetheless, DTIs were generally robust to hypothetical shocks to NPLs during the year (see **Chart 8**).[9] Commercial banks and FIAs were least affected by the hypothetical shocks to NPLs. Consequently, it would take shocks of 250.0 per cent and 280.0 per cent for the CARs of these respective sectors to fall below the prudential minimum of 10.0 per cent at end-2009. Credit unions were more significantly impacted by the shocks to NPLs, which is evident in the institutions' CAR declining below the prudential minimum of 10.0 per cent after a hypothetical 200.0 per cent increase in NPLs (see **Chart 9**).

Credit concentration risk in the banking system in 2009 was particularly apparent in the Distribution, Tourism and Personal sectors. At end-2009, loans to these sectors accounted for 62.1 per cent of the total private sector loans.

Chart 8

Banking Sector: Impact on CAR of a 30.0 Per cent Increase in NPLs



[8]For the credit risk stress DTIs include the banking sector and credit unions.

[9]In evaluating the impact of the credit risk stress test, the institution's capital and risk weighted assets are reduced by the increase in provisions arising from the change in NPLs. The assumed provisioning for new NPLs is 100.0 per cent.

Most notable for the credit risk stress tests was the decline in the system's CAR below the 10.0 per cent minimum prudential requirement as a result of increases in NPLs due to a 30.0 per cent reduction in performing Personal loans at the end of the June, September and December 2009 quarters (see **Chart 10**). Additionally, a 30.0 per cent reduction in performing loans to Personal, Tourism and Distribution sectors resulted in the system's CAR falling to 6.2 per cent at end-December 2009 from a pre-shock position of 18.3 per cent.

Chart 9

Banking Sector: Impact on CAR of Increases in NPLs

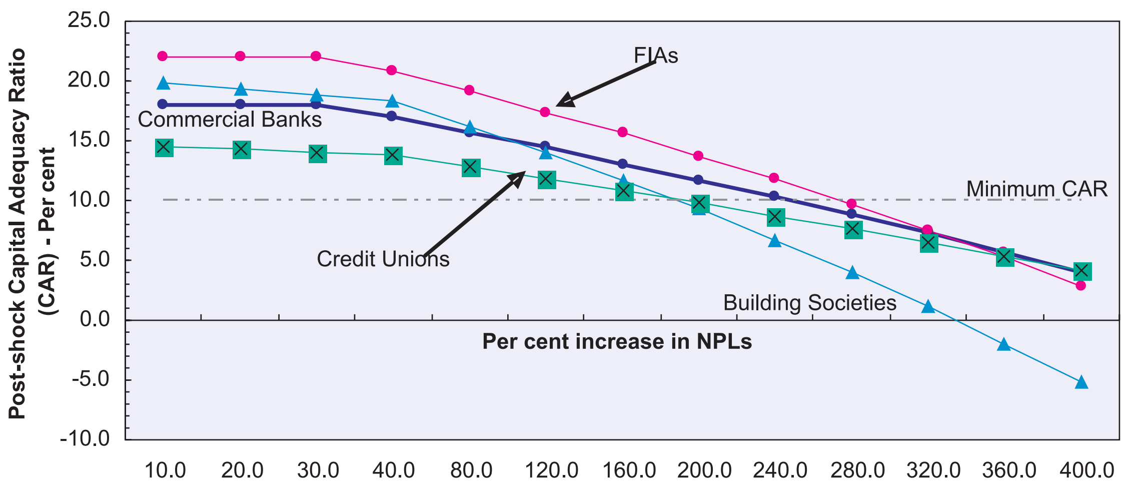


Chart 10

Banking System Quarterly Sectoral Credit Risk Stress Test Results

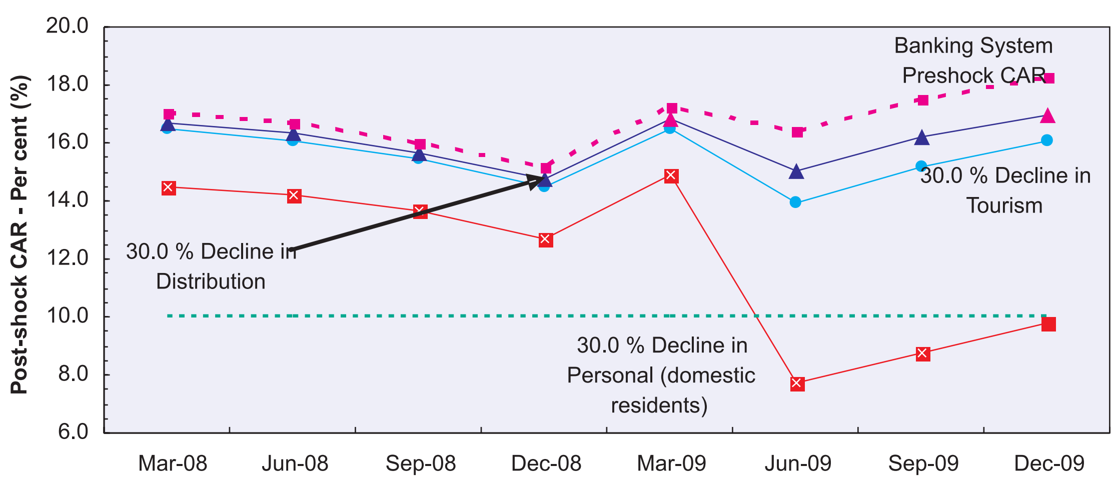
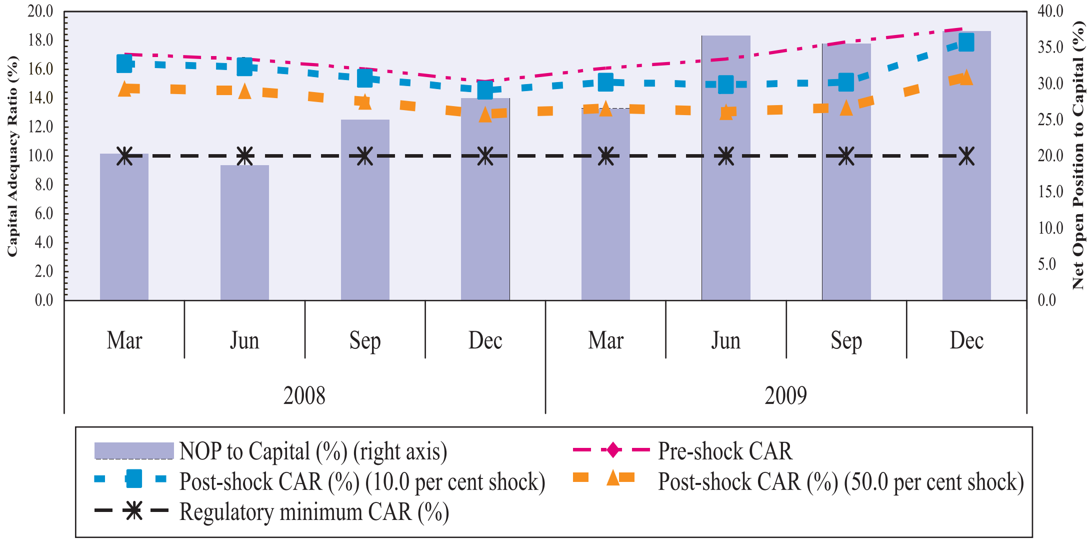


Chart 11

Banking Sector Quarterly Foreign Exchange Risk Stress Test Results



2.6.3. Foreign Exchange Risk Stress Test Results

The vulnerability of the banking system to foreign exchange rate shocks increased during 2009, due to increased foreign exchange exposure. The increased risk was partly associated with uncertainty surrounding the completion of Jamaica's negotiations with the International Monetary Fund for a Stand-by Arrangement. This uncertainty was further exacerbated by GOJ debt downgrades by key international rating agencies during the year. In this context, the banking system's foreign currency net open position to capital ratio increased to 37.2 per cent at end-December 2009, relative to 28.0 per cent at end-2008, increasing the banking system's long position to US$316.9 million (see **Chart 11**).[10] However, hypothetical depreciations in the exchange rate of the Jamaica Dollar vis-à-vis major international currencies did not have a significant impact on the CAR of the banking system (see **Chart 11**). Specifically, after a hypothetical depreciation of 50.0 per cent in the Jamaica Dollar vis-à-vis the US dollar, the banking system's CAR declined to 15.5 per cent from 18.8 per cent, but remained above the regulatory minimum CAR.[11]

[10]The net open position is computed as the sum of the net spot positions, net forward positions and guarantees. Thereafter, the foreign exchange exposure is determined as the maximum of the long and short net open positions across all currencies. Hypothetical shocks to the relevant exchange rate are applied to each of the net open positions. The impact of the resulting foreign exchange gain or loss on profitability and capital adequacy are then evaluated. An assessment is also made regarding the impact of exchange rate depreciations on NPLs based on the proportion of loans to non-foreign currency earners for each institution. This is done by evaluating the impact on the capital adequacy of each institution based on the assumed changes in provisions.

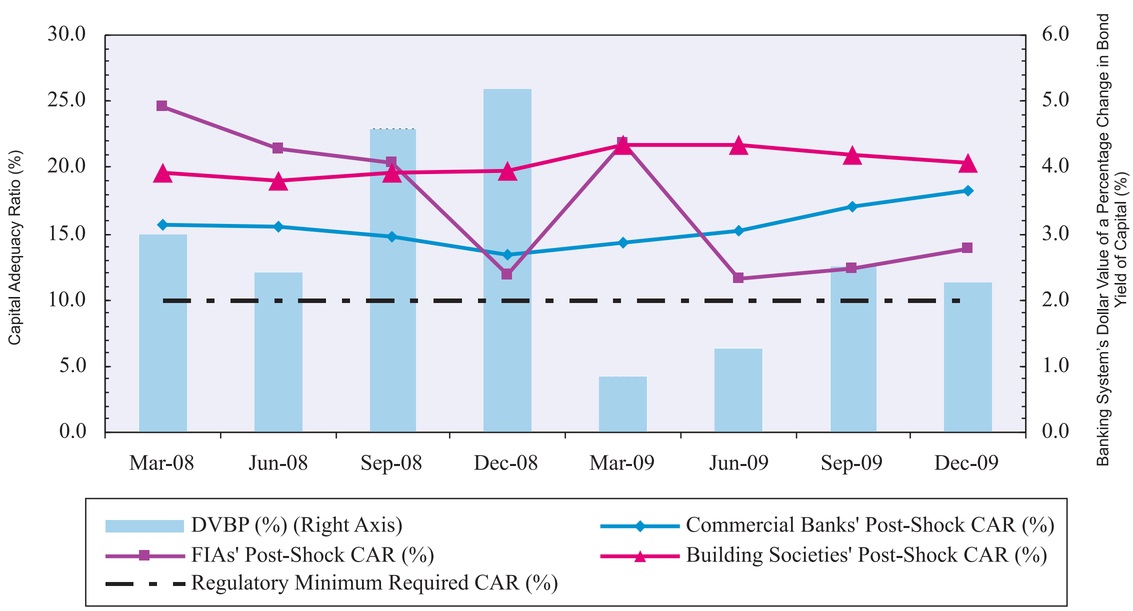
[11]Shocks applied firstly to the exchange rate between the Jamaica Dollar and the US dollar. The corresponding exchange rates of the Jamaica Dollar vis-à-vis the Euro, the Canadian dollar, and the Great Britain Pound Sterling were then incorporated based on historical correlations with the selling rate for the US dollar between January

2.6.4. Interest Rate Risk Stress Tests

The banking system was more robust to interest rate shocks in 2009, relative to 2008.[12] Specifically, the dollar value of a percentage point change in interest rates to the capital base ratio (DVPP to Capital) declined to 2.3 per cent at end-2009, relative to 5.2 per cent at end-2008 (see **Chart 12**).[13] There was a significant decline in the DVPP to Capital at end-December 2009, relative to end-March 2009. This mainly resulted from overall repositioning of commercial banks' assets to shorter duration assets which reduced the sector's susceptibility to interest rate shocks. However, the period end-March 2009 to end-December 2009 revealed a gradual increase in the banking system's susceptibility to interest rate shocks and primarily reflected an overall expansion in commercial banks' investment in longer duration assets. The DVPP to Capital increased to 2.3 per cent in December 2009 from 0.8 per cent in March 2009. Although hypothetical interest rate increases applied to the aggregate banking sector balance sheet during 2009 had no material impact on banking sector's CAR, FIAs were most susceptible to interest rate increases especially during the last three quarters of 2009. Nonetheless, stress test results indicated that the banking sectors' buffer capital was sufficient to absorb the impact of the hypothetical shocks to interest rates in 2009 (see **Chart 12**).[14]

Chart 12

Banking System Quarterly Interest Rate Risk Stress Test Results



and May 2003.

[12]Shocks of 1 400 bps and 150 bps were applied to the domestic currency securities portfolio and foreign currency securities portfolio, respectively.

[13]DVPP to Capital is the loss in fair value generated from 100 bps shocks to the system's foreign and domestic securities portfolio and reported as a percentage of the system's capital base.

[14]Repricing net gap positions are computed for each repricing/ maturity bucket as the assets minus liabilities. The change in the market value of net repricing assets is evaluated by applying the interest rate shock and duration factor to each repricing gap position. The impact on capital adequacy is then evaluated.

2.6.5. Liquidity Risk (Interest Rate) Stress Tests[15]

The risk of losses in net interest income as a result of interest rate increases declined during 2009, relative to 2008, as reflected in the declining end-of-quarter short-term negative gap positions of the banking sector. The reduction in exposure to interest rate increases was also reflective of the overall improvement in the cumulative 365-day gap position of the banking sector during 2009 (see **Chart 12**). As a result, the CARs for commercial banks and building societies remained constant when large but plausible interest rate shocks were applied. However, as a result of an initial hypothetical 1100 bps and 100 basis points (bps) interest rate increase on the securities portfolio and loans and deposit portfolio, respectively, FIAs' CAR reflected respective declines of 2.0 percentage points and 1.5 percentage points for the March and June 2009 quarters (see **Chart 13**). Despite this reduction, the CAR for FIAs remained above the 10.0 per cent statutory requirement.

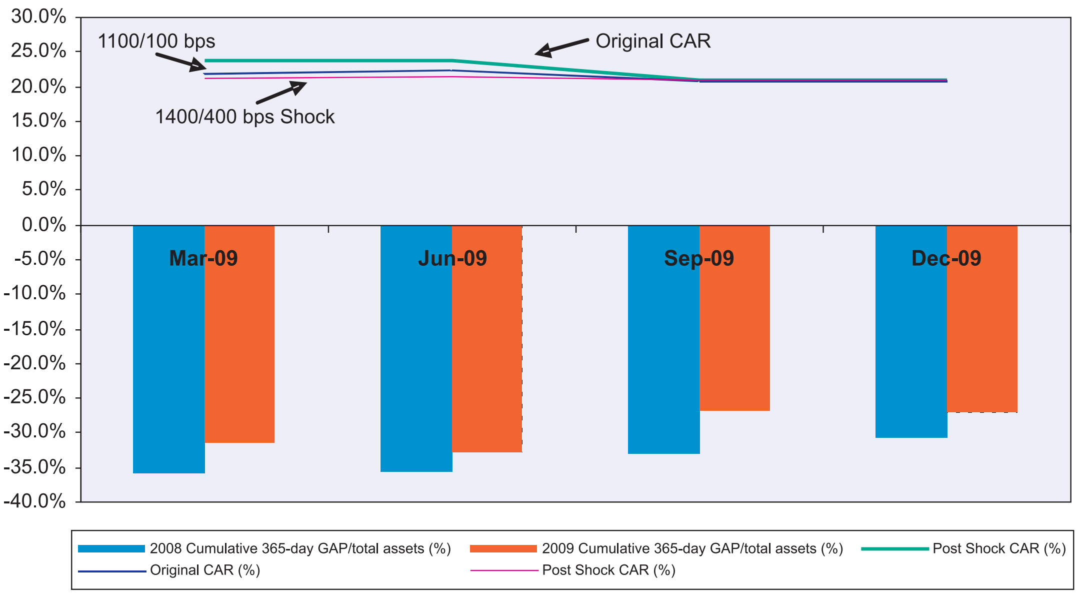
There was no impact on the CAR for the banking sector due to hypothetical reductions in interest rates over the review period.

2.6.6. Liquidity Risk (Funding) Stress Tests

End-of-quarter assessments of funding risk associated with the banking sector showed that all sub-sectors, with the exception of the FIAs, were robust to a possible sudden withdrawal of deposits for 2009 (see **Chart 14**).[16] This occurred

Chart 13

Banking System Quarterly Liquidity Risk Stress Tests Results

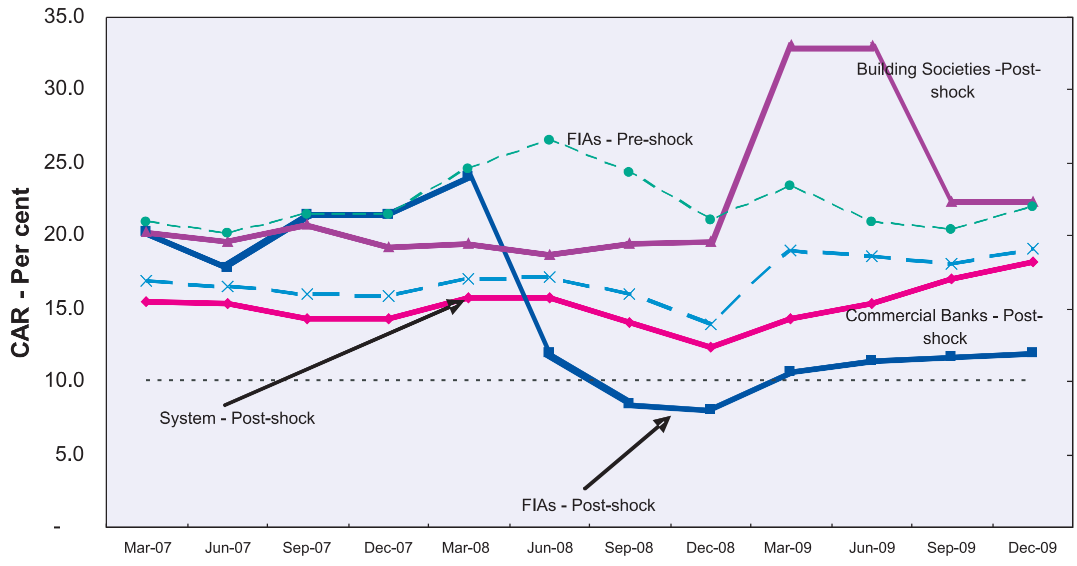


[15]For each maturity bucket, the liquidity gap is computed as assets minus liabilities. Cumulative gaps within 365 days are computed, to which hypothetical interest rate shocks are applied. The impact of the resulting change in net interest income on profitability and capital adequacy are then evaluated.

[16]Hypothetical reductions are applied directly to the deposit base of the bank. Assets are assumed to be liquidated, in order of liquidity, so as to satisfy the demand. Haircuts are applied to non-liquid assets to satisfy further declines in deposits. The resulting impact on capital adequacy is then evaluated.

Chart 14

Banking System Quarterly Funding Risk Stress Test Results



in a context where institutions held prudent levels of liquid assets, relative to deposits and, as a result, the potential for significant deposit withdrawals did not pose a meaningful source of risk. The FIAs greater vulnerability to possible losses in deposits was primarily a result of their comparatively low liquidity levels. For the review period, the FIAs maintained a quarterly average liquid assets to deposits ratio of 15.3 per cent, compared to 41.8 per cent and 27.0 per cent for the commercial banks and building societies, respectively. In addition, the FIAs reported a significant negative capital buffer arising from fair value accounting, which affected their capital position and thus their ability to comfortably absorb losses due to liquidation. Nonetheless, the overall robustness of the banking system to deposit withdrawal shocks reflected the strong liquidity position of the system throughout the year.

2.6.7. Aggregate Stress Test Results

Aggregate stress tests were also examined to assess the impact of combined shocks to credit quality, the exchange rate of the Jamaica Dollar vis-à-vis the US dollar, domestic and foreign interest rates and liquidity conditions on banking sector CAR during 2009. End-of-quarter results showed that DTIs continued to be robust to the aggregate stress test conducted by the BOJ during the year. More specifically, the stress test assumptions included:

i) 1 500 bps and 500 bps increase in domestic interest rates on investment assets and other assets, respectively;

ii) a 40.0 per cent increase in non-performing loans;

iii) a 10.0 per cent reduction in deposits;

iv) a 20.0 per cent depreciation in the J$/US$ foreign exchange rate; and

v) 100 bps and 10 bps increase in foreign interest rates on foreign currency investment assets and other foreign currency assets, respectively.

Table 23

DTIs Quarterly Aggregate Stress Test Results								
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Original CAR (%)	17.0	16.7	16.0	15.2	16.0	16.7	17.9	18.8
Post-Shock CAR (%)	15.3	16.1	13.2	12.8	12.5	12.3	13.2	13.1
Change in CAR (percentage points)	*-1.8*	*-0.6*	*-2.9*	*-2.4*	*-3.5*	*-4.4*	*-4.7*	*-5.7*

The DTIs' post-shock CAR declined by an average 4.6 percentage points over 2009, relative to an average decline of 1.9 percentage points during 2008 in response to the aggregate stress test. However, the banking system's CAR remained well above the 10.0 per cent minimum benchmark subsequent to the shock at the end of each quarter in 2009, as DTIs were well capitalized to absorb the impact of these shocks. The moderate declines in DTIs' CAR during 2009 following the aggregate end-quarter stress test largely reflected the increased exposure of these institutions to credit risk factors, given the strong deterioration in loan quality for the year (see **Table 23**).

2.6.8. Early Warning System (EWS) Results[17]

The macro-prudential early warning system (EWS) index for the DTIs continued its trend deterioration in 2009. At end-2009, the index was 2.0 points below the 1996-1998 financial crisis threshold of 44.0 points, indicative of deteriorating economic conditions (see **Chart 15**).

[17]The BOJ Early Warning System (EWS) monitors macro- and micro-economic indicators of the banking sector via a non-parametric approach to signal banking sector vulnerability. The signal is based on EWS scores for each indicator, which is computed based on the number of standard deviations of each indicator from its 'tranquil period' mean value. The tranquil period refers to an eight quarter period of relative stability that precedes the beginning of a signalling window. The scores range from 0 to 5 with a score of 5 representing the most severe signal. Banking sector vulnerability at a point in time is determined by the trend in the aggregate EWS score (or index) over the previous eight quarters (signalling window).

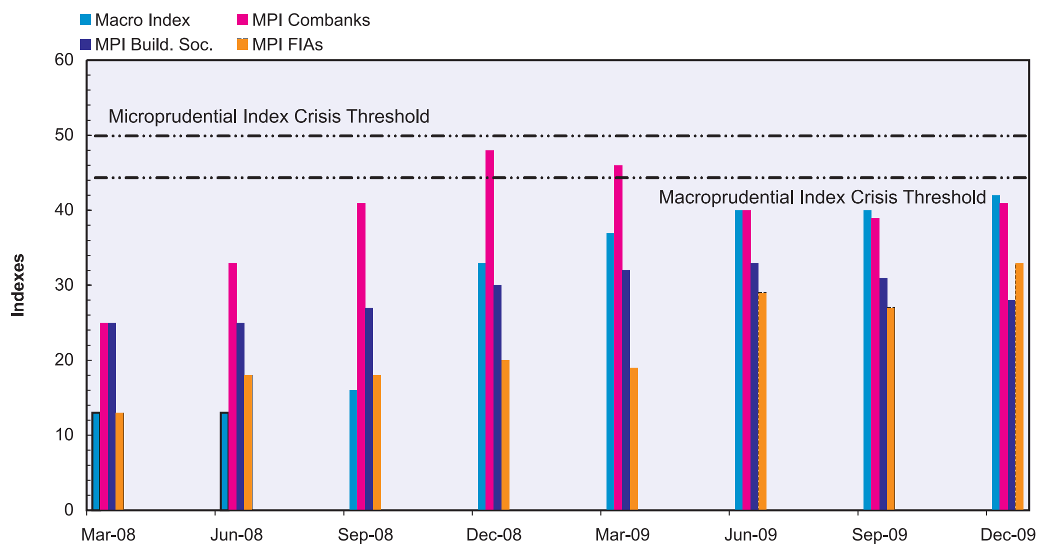
Furthermore, the index at end-2009 deteriorated by 9.0 points, relative to its value at end-2008. This performance can be mainly attributed to the continued deceleration in the 12-month growth in nominal GDP and private sector credit to 5.7 per cent and 3.4 per cent, respectively during 2009. The index was also adversely impacted by increases in the ratios of national and external debt to GDP.

Micro-prudential indices (MPIs) for the commercial banks, FIAs and building societies showed mixed overall results at end-2009, relative to end-2008. The MPIs for the commercial banks and building societies declined in severity while the index for the FIAs deteriorated. Notwithstanding this deterioration, the MPIs for all three sectors remained within the 1996-1999 financial crisis threshold value of 50.0 points. The commercial banking sector continues to record the highest MPI, relative to the other sectors.

The MPI for the commercial banks declined to 41.0 points at end-2009, relative to 48.0 points in 2008. This improvement in the MPI for commercial banks was influenced by increases of 1.9 per cent, 1.0 per cent and 2.4 per cent in the weighted ratios of capital to assets, deposits and repos to total assets and foreign currency

Chart 15

Early Warning System Output: 2008 - 2009



deposits to foreign currency assets, respectively.[18] In addition, a decrease in the weighted ratio of employee salaries to total assets was also a contributory factor to the improvement in the index. Partly offsetting this improvement were respective increases of 1.3 per cent and 0.4 per cent in the weighted ratios of non-performing loans to total loans and provisions for loan losses to total assets during 2009, signalling increased credit risk.

For the building societies sector, the MPI declined to 28.0 points at end-2009, relative to the 30.0 points recorded at the end of last year. Influencing this improvement was an increase of 1.7 per cent in both the weighted ratios of deposits to total assets and deposits and repos to total assets. Additionally, a 0.1 per cent decline in the weighted ratio of employees' salaries to total assets aided the strengthening of the MPI for building societies.

[18]Indicators used in the EWS framework are weighted by asset size.

Unlike the other two sectors, the MPI for the FIAs increased in severity to 33.0 points as at end-2009, in comparison to the 20.0 points recorded at end-2008. The sharp deterioration in the index was mainly impacted by year-over-year declines of 0.5 per cent and 3.4 per cent in the weighted ratios of net income to total assets and deposits & repos to total assets, respectively. The weighted 12-month growth in deposits for the sector declined by 10.1 per cent.

2.6.9. Liquidity Adjusted Value at Risk (L-VaR)

The banking system's L-VaR declined to J$11.9 billion at end-March 2009, relative to J$12.2 billion at end-December 2008.[19] In addition, the L-VaR to capital declined to 15.8 per cent at end-March 2009, relative to 19.5 per cent at end-December 2008. The high L-VaR outturns for

[19]This measure summarizes the downside risk to the institution's investment portfolio resulting from changes in market risk factors and market illiquidity.

the December 2008 and March 2009 quarters occurred against a background of substantial returns volatility, exchange rate instability and illiquid market conditions during these quarters. Durng the June 2009 quarter, the L-VaR and L-VaR to capital declined to J$10.2 billion and 15.0 per cent, respectively, in the context of greater stability in the foreign exchange market and an ease in market illiquidity.[20] Nonetheless, the downgrade of Jamaica's sovereign debt ratings by S&P in August 2009 triggered a market response which resulted in tighter market liquidity conditions and increased return volatilities during the September 2009 quarter. Consequently, the L-VaR rose by 12.7 per cent to J$11.6 billion at the end of the quarter, while the L-VaR to capital increased to 16.2 per cent. Despite further downgrades in the December 2009 quarter as well as greater instability in the foreign exchange market, the L-VaR declined during the quarter to total J$7.2 billion at end-December 2009. The decline was due to a general shift by the banking system to shorter duration GOJ bond holdings. Additionally, bid-ask spreads on GOJ global bonds widened for the December 2009 quarter, reflecting tighter market liquidity conditions. Consequently, the exogenous liquidity costs (ELC) or the costs that would be incurred by an institution for liquidating a portfolio position increased to J$807.0 million at end-December 2009, relative to J$666.8 million at end-September 2009.[21] Furthermore, the L-VaR to capital declined to 10.0 per cent at end-December 2009, relative to 16.2 per cent at the end of the previous quarter (see **Table 24**).

Table 24

BANKING SYSTEM					
	VaR	ELC	L-VaR	L-VaR-to-capital	VaR-to-capital
MONTH		J$'000		%	%
Jun-08	3 852 278	574 601	4 426 879	7.1	6.2
Sep-08	3 381 689	461 879	3 843 567	5.9	5.2
Dec-08	11 517 801	686 533	12 204 335	19.5	18.4
Mar-09	11 159 273	801 374	11 960 647	15.8	16.8
Jun-09	9 624 850	664 660	10 289 510	15.0	14.0
Sep-09	10 927 002	666 840	11 593 842	16.2	15.3
Dec-09	6 414 704	807 692	7 222 395	10.0	8.8

[20]The L-VaR to Capital is the liquidity adjusted portfolio dollar VaR stated as a percentage of the capital base.

[21]The ELC at a one-day horizon is the worst half-spread at the threshold of 99% $ELC = \frac{1}{2} P_t(\mu' + 2.3\,\sigma)$

3. Money Market Operations

3.1. Bank of Jamaica Operations

Liquidity Management Operations

For 2009, the Bank's primary tool for monetary policy implementation was Certificates of Deposit. This was complemented by the increase in the cash reserve requirement for deposit-taking financial institutions. The Bank increased the domestic cash reserve requirement by 3.0 percentage points in the March 2009 quarter. The increase in the statutory reserves resulted in the absorption of $6 934.6 million in the March quarter and contributed to the overall absorption of $7 221.5 million for 2009. This absorption partially offset the liquidity emanating from net payments of $34 792.6 million on maturing CDs for 2009.

The injection of liquidity which emanated from the net payments on CDs occurred in all quarters of the review year. Liquidity also emanated from the net purchase of foreign currency, which added $27 664.8 million in Jamaica Dollar liquidity for 2009. Total injection of $62 457.3 million from these sources, facilitated the net issue of $23 380.6 million in GOJ bonds on the domestic capital market for 2009 (see **Table 25**).

The March 2009 quarter was characterized by significant liquidity emanating from the usual net currency redemption. This liquidity threatened financial market stability as there was heightened bidding in the foreign exchange market in a context of illiquid US dollar supply. The margin calls on GOJ Global Bonds which had emerged in the December 2008 quarter intensified at the onset of the March 2009 quarter. This was in a context of downgrades of Jamaica's sovereign debt by the three major rating agencies. In order to reduce the excess liquidity in the system, the Bank increased the domestic cash reserve requirement by 2.0 percentage points on 02 January 2010 and by a further percentage point on 6 February. The Bank also implemented various policy initiatives aimed at restoring balance in the foreign exchange market.[22] These actions successfully underpinned stability in the financial markets for the rest of the quarter. Against this background, the Bank was able to net purchase US dollars from the market. The liquidity from this source coupled with net maturity payments of CDs resulted in total injection of $13 203.2 million for the quarter. This enabled the Government to net issue $7.0 billion in medium-term to long-term bonds (see **Table 25**).

By the beginning of the June quarter, the restoration of financial market stability, along with the more benign economic environment facilitated a change in the Bank's policy stance. In this regard, the Bank effected six monetary

[22]These initiatives included the implementation of a facility to sell foreign exchange directly to Public Sector Entities, and the fostering of co-operative behaviour among licensed foreign exchange dealers who established specific trading protocols.

Table 25

BANK OF JAMAICA LIQUIDITY MANAGEMENT OPERATIONS - 2009					
	March	**June**	**September**	**December**	**Total**
Net Issues (+)/net Mat. (-) on Certificates of Deposit	-15 550.3	-3 353.0	-4 588.3	-11 301.0	-34 792.6
Net increase(+)/net Decrease (-) in Domestic Cash Reserve	6 943.6	502.4	- 877.8	653.3	7 221.5
Net Sale(+) of / net Purchase(-) of Foreign Exchange	-4 596.5	-11 387.0	-17 032.3	5 351.1	-27 664.8
Net Sale(+) of / net Purchase(-) of Securities	0.0	- 143.9	- 315.8	-1 127.9	-1 587.6
Net Absorption (+)/Injection (-)	**-13 203.2**	**-14 381.5**	**-22 814.2**	**-6 424.5**	**-56 823.5**

Table 26

TAKE-UP RATIOS (%) IN OPEN MARKET INSTRUMENTS QUARTERLY PROFILE FOR 2008 & 2009						
	Issue Tenor	**March**	**June**	**September**	**December**	**Yearly Avg.**
2008	30 - DAY	42.4	48.2	66.5	75.1	**58.1**
	90 - DAY	6.7	8.8	6.6	9.5	**7.9**
	180 - DAY	14.8	5.0	3.0	3.0	**6.4**
	365 - DAY	25.5	29.3	12.1	8.3	**18.8**
	OTHER	5.5	8.7	8.2	4.2	**6.6**
	Special Offers	5.0	0.0	3.6	0.0	**2.2**
	Issue Tenor					
2009	30 - DAY	44.1	44.7	39.0	39.3	**41.8**
	90 - DAY	10.9	9.9	20.8	22.5	**16.0**
	180 - DAY	7.6	10.0	32.1	30.4	**20.0**
	365 - DAY	32.3	30.4	0.0	0.0	**15.7**
	OTHER	5.1	4.9	8.1	7.7	**6.4**
	Special Offers	0.0	0.0	0.0	0.0	**0.0**

'Other' includes the take-up in the 60-day, 120-day and 270-day tenors.
''Special Offers' includes VR and FR offers for a limited time period.

policy changes during the June and September quarters. The Bank adjusted the rate offered on the 365-day tenor on 8 April 2009, which was followed by its removal from the Bank's menu of open market instruments on 03 June 2009. The latter occurred in the context of the Bank's objective to streamline its money market operations and focus on issuing instruments at the short-end of the yield curve. Subsequently, there were four rounds of reductions in rates across all open market instruments. The rates were reduced by 450 basis points, relative to their corresponding levels at the end of the March quarter. Against this background, there was liquidity injection of $37 195.7 million that emanated from net maturity payments on CDs and the net purchase of foreign exchange by the Bank in the June and September quarters. The injection funded the subscriptions to GOJ primary issues of approximately $27 000 million (net) for the review period (see **Table 25**).

For the December quarter, the level of liquidity injection through BOJ operations was reduced to $6 424.5 million. This was in the context of seasonal excess demand for foreign exchange. The Bank net sold foreign exchange during the December quarter, thereby absorbing Jamaica Dollar equivalent of $5 351.1 million, which partially offset the liquidity impetus from the net maturity payments on CDs (see **Table 25**). The et injection from these sources facilitated the payments associated with the seasonal increase in demand for notes and coins during the Christmas season, with currency issue amounting to $8 428.6 million during the December quarter.

Additionally, during the December 2009 quarter, the relatively lower liquidity emanating from maturing CDs resulted in some financial institutions experiencing difficulty in sourcing sufficient Jamaica Dollars. This was alleviated through the sale of securities to the Bank. The net purchase of securities in 2009 directly related to the implementation of the Real-time

Table 27

MATURITY RATIOS (%) IN OPEN MARKET INSTRUMENTS
QUARTERLY PROFILE FOR 2008 & 2009

	Issue Tenor	March	June	September	December	Quarterly Avg.
2008	30-day	71.1	66.3	60.2	78.9	**69.1**
	90-day	3.7	11.7	9.6	6.3	**7.8**
	180-day	18.4	11.6	22.0	4.7	**14.2**
	365 -day	0.0	0.0	0.0	0.0	**0.0**
	OTHER	6.8	10.4	8.2	10.1	**8.9**
	Special Offers	0.0	0.0	0.0	0.0	**0.0**
	Issue Tenor					
2009	30-day	42.9	49.7	41.7	34.0	**42.1**
	90-day	9.2	10.4	13.2	23.4	**14.1**
	180-day	2.7	3.5	8.9	16.6	**7.9**
	365-day	29.5	28.6	14.6	14.5	**21.8**

Gross Settlement (RTGS) System in the year. The RTGS allows financial institutions to access intra-day liquidity from the Central Bank. The liquidity is secured by GOJ bonds or BOJ CDs. The requirement however, is that intraday loans are fully repaid by the end of each business day, failing which, the Bank liquidates the collateral. To this end, the Bank purchased securities that provided $1 127.9 million to financial institutions (see **Table 25**).

Primary Dealer Administration and Loan Intermediation Facility

The Bank commenced issuing CDs in electronic form in 2009. This was consistent with the implementation of the Central Securities Depository for fixed income securities on 15 May 2009. With the implementation of the CSD, new OMO issues were dematerialized as at that date while the immobilization of the outstanding stocks was completed by end-September 2009. Implementation of this system, following the excecution of the RTGS in February 2009, enhanced CD operations as participants' bids were more efficiently processed and settlement risks reduced. This was in a context where a primary pillar of the new payments and settlement system architecture is delivery versus payment (DvP). These improvements were applicable to both primary and secondary market activities, which augur well for fostering greater depth and liquidity of fixed income securities used in the domestic money market. For 2009, Primary Dealers (PD) increased their share of new CD issues to an average of 64.3 per cent from an average of 60.4 per cent in 2008. This contributed to the increase in their holdings of CDs outstanding to 81.6 per cent as at end-December 2009, relative to 65.0 per cent for the corresponding period in 2008.

The number of designated PDs declined to twelve, compared to thirteen entities at the end of the previous year.[23] The assessment and monitoring of the primary dealers is on-going, with the Bank broadening the Standards and Requirements for PDs retaining the designation. In this regard, the Bank implemented fitness and propriety assessments on principal shareholders, directors and managers of all entities, coinciding with the annual renewal of the Primary Dealer designation. This is in keeping with the Bank's objective of maintaining financial system stability by ensuring that these persons are of sound probity to exercise the required competence, diligence and judgment in discharging their responsibilities as a BOJ Primary Dealer. For 2009, eighteen persons were assessed under the BOJ's 'Fit & Proper' Criteria.

The Bank continued to function as an intermediary for local financial institution under the Loan Intermediation Facility which commenced in October 2008 and November 2008 for JMD and USD repo transactions, respectively.[24] Consequent on the intensification of the global financial crisis, and in the absence of marked improvement in

[23] Primary dealers are assessed on a quantifiable target examining *inter alia*, the institutions' performance to meet minimum participation levels in GOJ primary issues and BOJ OMOs. For 2009, one entity failed to satisfy this performance target for consecutive assessment periods, which culminated in the PD designation being withdrawn.

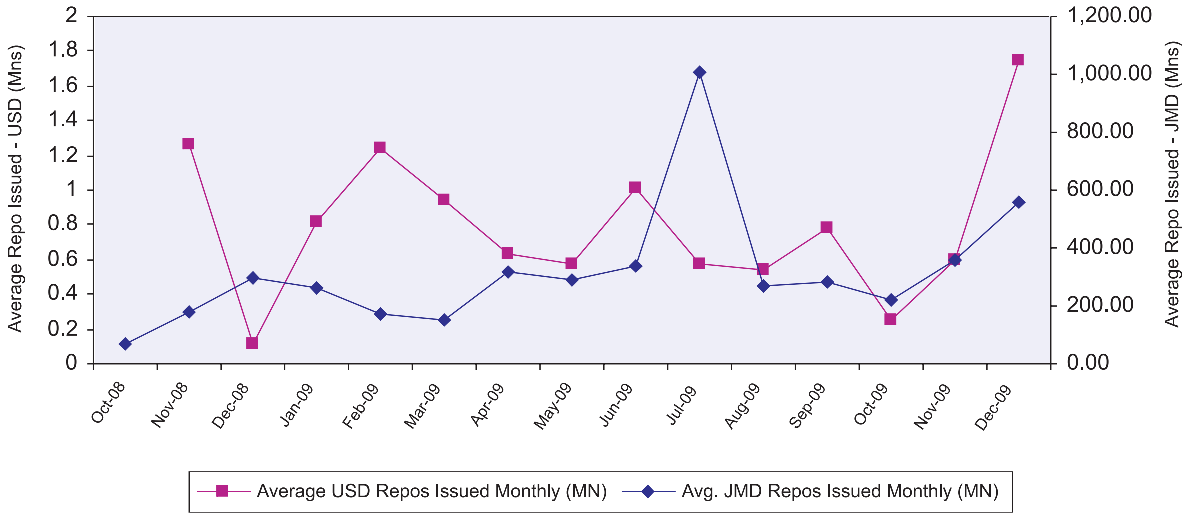
[24] Under this facility, financial institutions bi-laterally concur on the terms of the agreement and the Bank intermediates, by taking a deposit from the lender and extending a repurchase agreement to the borrower at the agreed terms. There is no interest rate spread taken by the Bank and the acceptable collateral is Government of Jamaica bonds or BOJ CDs. Under this arrangement, the Bank assumes the full counterparty risk to the borrower.

the flow of liquidity among financial institutions within the domestic financial markets in 2009, the use of the facilities broadened. In this regard, for 2009, the average turnover for the facilities amounted to $317.5 million and US$ 0.8 million. For 2008, the average turnover for the facilities for the respective three-month and two-month period was J$181.0 million and US$ 0.7 million (see **Chart 16**).

With improved conditions emerging in the domestic financial markets by the June quarter, the Bank gradually began a cycle of monetary easing. In this regard, the BOJ removed the **1.33** percentage point premium on its 365-day OMO tenor on 08 April 2009, and subsequently withdrew the tenor in June. Further monetary action by the Bank during the June and September quarters resulted in interest rates on all its open market instruments being reduced by 450 basis points.

Chart 16

Average Daily JMD and USD Repos Issued under the BOJ Loan Intermediation Facility



3.2. Interest Rates

Against the background of instability in the foreign exchange market at the start of the year, the Bank of Jamaica maintained a cautious policy stance in the March 2009 quarter. In this regard, OMO interest rates in that quarter were kept at the levels that were implemented in December 2008 (see **Table 28**). This stance reflected the Bank's efforts to restore stable financial market conditions, in the context where the domestic foreign exchange market remained unstable since the escalation of the global financial crisis in the December 2008 quarter.

At end-September, the range of interest rates on open market instruments was 12.50 per cent on the 30-day tenor to 17.00 per cent on the 180-day tenor. These actions were underpinned by the positive trends in key financial market and economic indicators, most notably, the stability in the foreign exchange market and adequate level of NIR, as well as a significant moderation in domestic inflation.[25]

[25]The twelve-month point-to-point inflation rate for June 2009 declined to **9.0** per cent, compared to **12.4** per cent at the end of fiscal year 2008/09. This also represented a significant improvement, relative to the outturn of **24.0** per cent at June 2008.

In the context of continued decline in domestic inflation, stable financial market conditions and the expectation that the Government was near conclusion of a Stand-by Loan Arrangement with the IMF for balance of payments support, the Bank of Jamaica continued to reduce interest rates in the December quarter. To this end, the Bank further reduced interest rates on all open market instruments by 200 basis points in the December quarter (see **Table 28** and **Chart 17**).

Similar to policy interest rates, market-determined rates also declined during 2009. For the first half of the year, the cumulative reductions in the weighted average yield on 3-month and 6-month GOJ Treasury Bills were 242 basis points and 340 basis points, respectively. At end-June, the weighted average Treasury Bill yield (WATBY) for the 3-month and 6-month GOJ Treasury Bills were 19.58 per cent and 21.05 per cent on the respective tenors (see **Table 29**).

Table 28

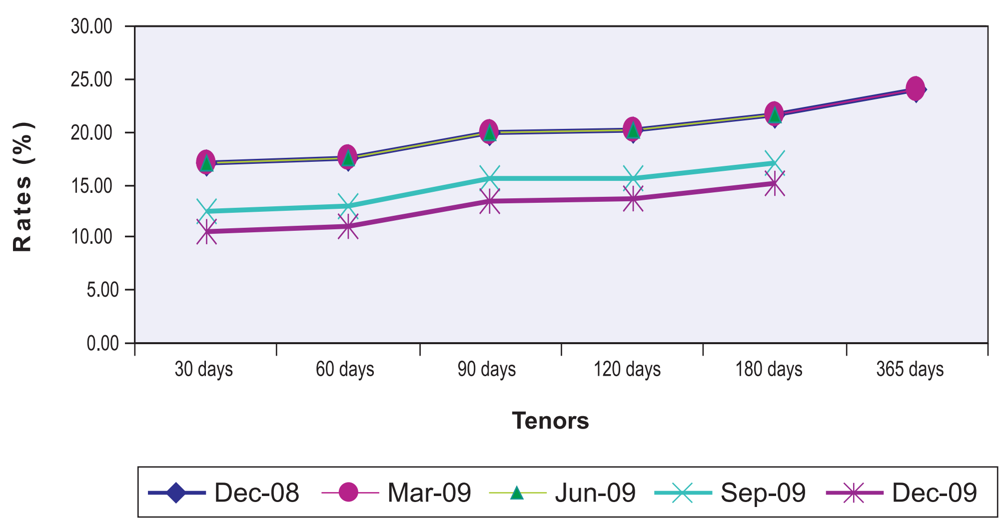
RATES ON BOJ CERTIFICATES OF DEPOSIT

(% per annum)

From-To	30-day	60-day	90-day	120-day	180-day	365-day
End December 2008	17.00	17.50	20.00	20.20	21.50	24.00
08 April	17.00	17.50	20.00	20.20	21.50	22.67
03 June	17.00	17.50	20.00	20.20	21.50	n/a
July	17.00	17.50	20.00	20.20	21.50	n/a
24 July	16.00	16.50	19.00	19.20	20.50	n/a
30 July	14.50	15.00	17.50	17.70	19.00	n/a
20 August	13.50	14.00	16.50	16.70	18.00	n/a
17 September	12.50	13.00	15.50	15.70	17.00	n/a
18 December	10.50	11.00	13.50	13.70	15.00	n/a

Chart 17

BOJ's Yield Curve (End-Period)



In the context of the continued improvements in financial and economic variables, the pace of decline in market-determined rates increased during the September quarter, consistent with the decline in rates on similar BOJ tenors (see **Chart 18**). In this regard, the weighted average yields on the 3-month and 6-month Treasury Bills were 16.39 per cent and 17.35 per cent, respectively, declining by 319 basis points and 370 basis points, relative to end-June (see **Table 29** & **Chart 18**).

There was a general decline in the coupons offered by the GOJ on its domestic bond issues during the year. This was despite the increased reliance on the domestic market to finance its operations in 2009, in light of the closure of the international credit markets for most of the year. The coupons offered on the GOJ's fixed rate domestic currency bonds declined to average 17.53 per cent in the December quarter, from an average of 24.58 per cent in the March quarter. Simultaneously, there was an increase in the average tenor to approximately 4.5 years by the December quarter, from approximately 1.5 years in the March quarter for the fixed rate bonds issued in 2009.

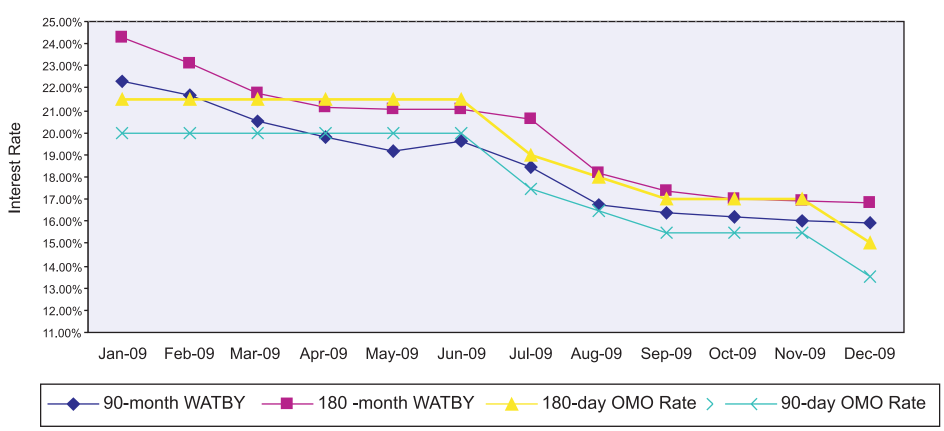
Table 29

WEIGHTED AVERAGE TREASURY BILL YIELDS
(%, END PERIOD - 2009)

End Month	90-day WATBY	180-day WATBY
January	22.33	24.26
February	21.69	23.13
March	20.51	21.77
April	19.82	21.17
May	19.21	21.08
June	19.58	21.05
July	18.46	20.60
August	16.72	18.21
September	16.39	17.35
October	16.21	17.04

Chart 18

BOJ's Yield Curve (End-Period)



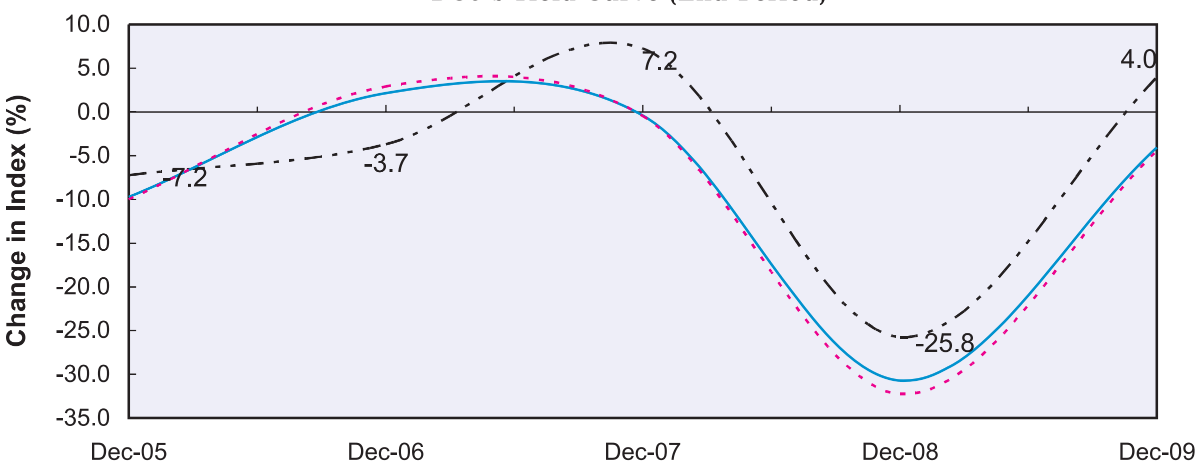
4. The Stock Market

The local stock market rebounded in 2009, following the negative impact of the global financial turmoil in 2008. For 2009, the Main Jamaica Stock Exchange (JSE) Index increased by 4.0 per cent in contrast to a decline of 25.8 per cent recorded the previous year. The performance of the All Jamaica Composite Index was less negative with a decline of 4.1 per cent, relative to a sharp decline of 30.7 per cent during 2008. Similarly, the Jamaica Select Index recorded a decline of 4.5 per cent, compared to 32.2 per cent for 2008 (see **Chart 19**). Despite the improvement in the JSE indices, there was a marked reduction in trading activities as reflected in the overall volumes and values traded during the year. Year-over-year, the volume and values of shares traded fell 27.6 per cent and 52.5 per cent, respectively, indicative of continued risk aversion by equities investors.[26] The advance-to-decline ratio was 17:19 at end-2009, in comparison 8:28 at the end of the previous year. Advancing stocks were concentrated in the tourism, finance and conglomerate categories and accounted for seven of the top ten advancers (see **Table 31**). The top ten declining stocks were mainly from the manufacturing and communications categories (see **Table 32**).

The quarterly performances of the JSE indices throughout the year were mixed. Notably, the three indices recorded growth for the June and December quarters while declines were recorded in the other two quarters of the year (see **Chart 20**). For the June 2009 and December 2009 quarters, the growth in the indices was primarily

Chart 19

BOJ's Yield Curve (End-Period)



[26] The number of transactions during the year declined sharply to 16 029 transactions relative to 30 312 transactions in 2008.

influenced by better-than-expected earnings results of several listed companies, relative stability in the foreign exchange market and downward adjustments in interest rates primarily in the last three quarters of 2009. However, there was a continuation of the decline in the local stock market indices from 2008 into the first quarter of 2009, which was largely as a consequence of the relatively high interest rates in the domestic economy and the spillover effects of the global financial crisis. During the September 2009 quarter, poor earnings performance contributed to the decline in the indices.

Improvements in the stock market indices occurred against the background of relative stability in the foreign exchange market and downward adjustments in domestic interest rates, primarily in the latter half of the year (see **Interest Rates** and **The Foreign Exchange Market)**. These developments increased the attractiveness of equities, relative to returns on fixed income investment and holding foreign currency especially in the last quarter of the year. During the final quarter of 2009, monthly returns on equity investments as reflected by movement in the JSE Main Index averaged 1.4 per cent. This compares to average monthly return of 1.2 per cent from money market securities and gains of 0.2 per cent from holding foreign currency (see **Chart 21**). Additionally, the quarterly performance was supported by favourable earnings results by several listed companies, despite the downturn in local economic activity. Notwithstanding, investors' confidence remained subdued in the context of a contraction in real domestic economic activity.

Chart 20

Quarterly Growth of the JSE Indices: 2009

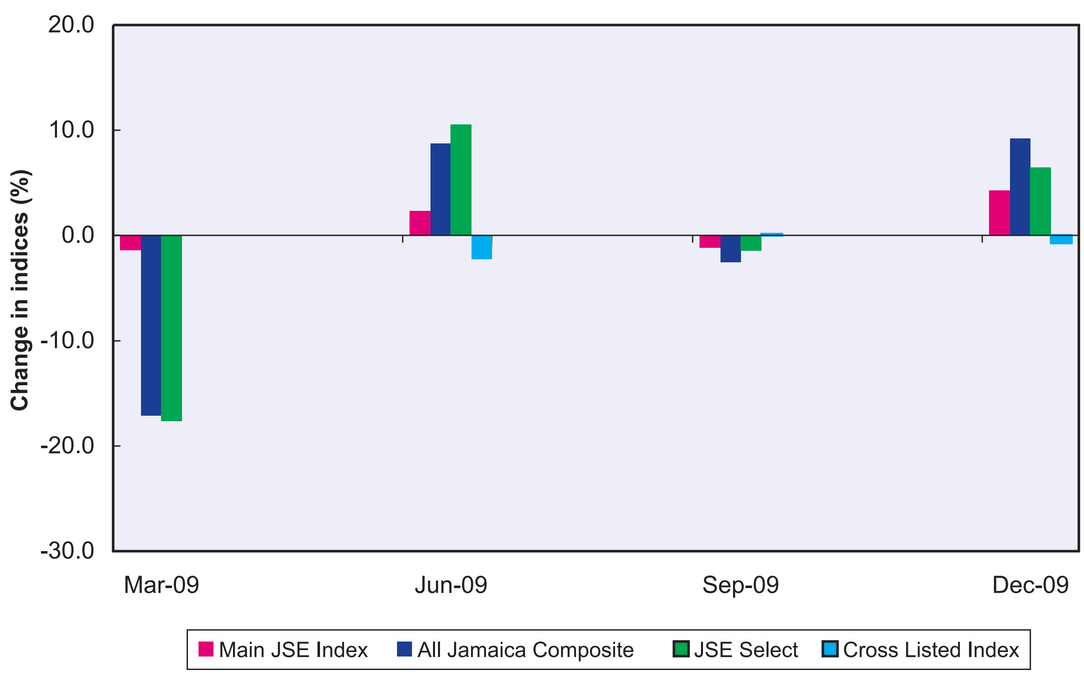


Table 30

Trading Activities of the JSE: 2008-2009			
	Values Traded J$MN	Volumes Traded MN	# of Transactions
Mar-08	8 730.8	675.7	9 022
Jun-08	6 277.2	531.3	7 439
Sep-08	5 042.7	569.1	7 012
Dec-08	4 191.2	519.6	7 380
Total	24 242.1	2 295.7	30 853
Mar-09	2 085.8	629.1	4 341
Jun-09	1 358.1	191.0	3 407
Sep-09	2 541.8	339.0	4 019
Dec-09	5 528.4	503.0	4 262
Total	11 514.3	1 662.1	16 029
Annual Change %			
Values Traded	(52.5)		
Volumes Traded	(27.6)		
# of Transactions	(48.0)		

There were several new developments in the local stock market during the review period. On 02 February 2009, the JSE published its first Cross Listed Index aimed at tracking the performance of stocks of foreign owned listed companies.[27] During the second quarter of the year, the JSE launched the Junior Stock Exchange. This was aimed at providing opportunities for small and medium-sized enterprises (SMEs) to raise capital. Additionally, during the same quarter, the Government imposed a withholding tax of 33 1/3 per cent on dividends paid to non-resident shareholders. In the third quarter, Sagicor Financial Services Limited delisted from the JSE, citing insignificant trading of the company's shares. Finally, within the last quarter of the year, Barita Investments Limited issued its initial public offering and Access Financial Services Limited became the first company to list on the Junior Stock Exchange at a share price of $18.34 each (see **Table 33**).[28]

At the regional level, the Trinidad & Tobago Composite Index and the Barbados Local Index both recorded declines for 2009. The Trinidad and Tobago Composite Index declined by 9.2 per cent while the Local Index in Barbados fell by 11.9 per cent (see **Chart 22**). The stock market outturns in Trinidad and Tobago and Barbados reflected the generally slower rate of growth in profitability of listed companies, in addition to the downturn in economic activity in these Caribbean islands.

[27]Since inception to 31 December 2009, the index declined 3.7 per cent to close the year at 962.9 points. The stocks that comprise this index include First Caribbean International Bank, Guardian Holding Limited and Trinidad Cement Limited.

[28]Ordinary and preference shares of Barita Investments Limited were officially listed on the Main Jamaica Stock Exchange on 14 January 2010. Ordinary and preference shares were listed at $2.50 and $3.50 per share, respectively.

Chart 21

Average Monthly Returns from Equities, Foreign Currency & Fixed Income Investments: 2008-2009

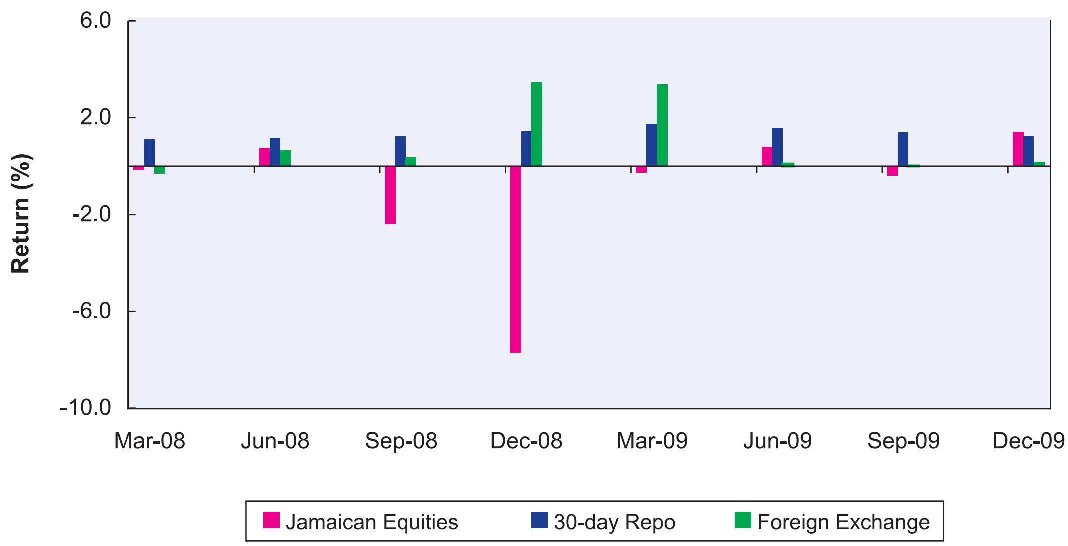


Chart 22

Annual Growth of Regional Indices:2005 - 2009

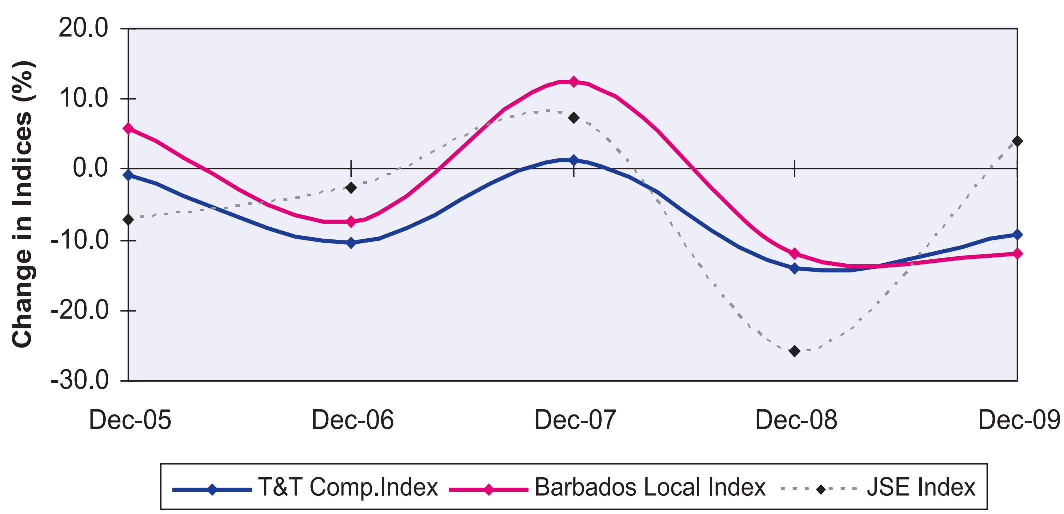


Table 31

Top Ten Advancing Stocks in 2009	Price as at end-2009 ($)	Price Change (%) 2009
Tourism		
Ciboney Group	0.10	100.00
Montego Freeport	1.90	22.58
Pegasus Hotel	19.99	17.59
Finance		
Pan Caribean	18.10	50.83
First Caribbean Int'l Bank	117.94	17.94
Conglomerate		
Pan Jam Investments	36.00	44.00
Jamaica Producers	25.89	12.57
Manufacturing		
Jamaica Broilers	4.96	55.00
Salada Foods	15.50	19.23
Insurance		
Sagicor Life Jamaica	7.02	25.36

Table 32

Top Ten Declining Stocks in 2009	Price as at end-2009 ($)	Price Change (%) 2009
Manufacturing		
Berger Paints	1.20	-40.00
Kingston Wharves	3.08	-35.83
Mobay Ice Company	15.67	-21.65
Communications		
Radio Jamaica	2.01	-33.00
Gleaner Company	1.16	-32.95
Cable & Wireless	0.38	-24.00
Conglomerate		
Lascelles de Mercado	250.00	-34.73
Finance		
Jamaica Money Market	4.00	-45.58
Retail		
Hardware & Lumber	3.50	-65.00

Table 33

Stock Market Developments: 2009				
	Iinitial Public Offering (IPO)	New Listing	Delisting	Other Developments
Mar-09				JSE published its first Cross Listed Index
Jun-09				1. JSE launched the Juniour Stock Exchange 2. Government imposed a withholding tax of 331/3 per cent on dividends to non-resident shareholders
Sep-09			Sagicor Financial Services Limited delisted from the JSE	
Dec-09	Barita Investments Limited issued its IPO	Access Financial Services Limited listed on the Juniour Stock Exchange		

5. Supervision of Deposit-Taking Financial Institutions

5.1. Introduction

The Bank of Jamaica is charged with the supervision and periodic examination of deposit- taking financial institutions, pursuant to provisions under Section 34A of The Bank of Jamaica Act.[29] The supervised population comprises:

- Commercial banks licensed under The Banking Act
- Merchant banks licensed under The Financial Institutions Act (hereafter, FIA licensees); and
- Building societies governed by The Building Societies Act and The Bank of Jamaica (Building Societies) Regulations.

Additionally, credit unions have been designated by the Minister of Finance as 'specified financial institutions' under The Bank of Jamaica Act, as a preliminary step towards placing these institutions under the supervisory regime of the Bank of Jamaica. This specification currently enables the Bank to obtain information on their operations. Regulations to establish a formal supervisory framework for these entities have been drafted after extensive discussions with sector representatives, and are pending presentation to Parliament by the Minister of Finance (see **Section 5.8** and **Section 5.5.4**).

[29]Regulatory responsibility for non-deposit-taking financial institutions rests with the Financial Services Commission which has supervisory oversight of the securities, insurance and private pensions industries (see Section 6.0).

At end-2009, there were seven commercial banks, four building societies and three FIA licensees. No new licences were granted under the administered deposit-taking legislation during 2009 and as such, the total number of licensed deposit-taking entities remained unchanged as compared to end-2008 (see **Table 34**).

5.2. Legislative Framework

The major pieces of legislation and supporting regulations governing the operations of the supervised institutions are shown in Table 35.

These pieces of legislation establish the key principles and powers of supervision which include:

- licensing and pre-qualification criteria (inclusive of fit and proper standards);
- minimum capital requirements, inclusive of risk weighted capital adequacy and leverage ratios;
- exposure limits (such as credit, investment and fixed asset limits);
- connected party restrictions;
- cash and liquidity reserves requirements;
- non-performing loan classification and provisioning criteria;
- non-accrual requirements;
- routine prudential reporting;
- regular on-site examinations;

Table 34

Licensed Deposit-taking Institutions as at 31 December 2009		
Sub-sector	**Institution Name**	***Related Deposit-taking Institution***
Commercial Banks	Bank of Nova Scotia Jamaica Limited	*Scotia Jamaica Building Society* *Scotia DB&G Merchant Bank Limited*
	Citibank N. A.	
	FirstCaribbean International Bank (Jamaica) Limited	*FirstCaribbean International Building Society*
	First Global Bank	
	National Commercial Bank Jamaica Limited	
	PanCaribbean Bank	
	RBTT Jamaica Limited	
FIA Licensees	Capital & Credit Merchant Bank Limited	
	Scotia DB&G Merchant Bank Limited	*Bank of Nova Scotia Jamaica Limited* *Scotia Jamaica Building Society*
	MF&G Trust and Finance	
Building Societies	FirstCaribbean International Building Society	*FirstCaribbean International Bank (Jamaica) Limited*
	Jamaica National Building Society	
	Scotia Jamaica Building Society	*Bank of Nova Scotia Jamaica Limited* *Scotia DB&G Merchant Bank Limited*
	Victoria Mutual Building Society	

- consolidated supervision; and
- supervisory sanctions and intervention powers in instances of statutory violations, unsafe/unsound practices and insolvency.

Licensees also have statutory responsibilities which may or may not be peculiar to their nature of business, which devolve from other pieces of legislation which include, but are not limited to The Companies Act, The Deposit Insurance Act, The Proceeds of Crime Act, The Terrorism Prevention Act as well as Guidance Notes issued by the Supervisory Authority (see also **Section 5.4** and **Section 5.5)**.

5.3. Supervisory Methodology

Bank of Jamaica's supervisory responsibilities for deposit-taking institutions are discharged through the Financial Institutions Supervisory Division (FISD). The principal aims of supervision are to promote the safety and soundness of banks and banking groups and to promote the stability of the financial system. The supervisory methodology combines annual on-site examinations of each licensee with on-going off-site monitoring facilitated primarily by prudential reporting requirements. This allows for continuous and timely review of developments in the financial condition of supervised entities both at the institutional level as well as at the systemic level.

Table 35

Overview of Legislative Framework	
Type of Legislation	**Title of Statute**
Principal Legislation	• The Bank of Jamaica Act • The Banking Act • The Financial Institutions Act • The Building Societies Act
Subsidiary Legislation	• The Banking (Establishment of Branches) Regulations • The Banking (Amalgamation and Transfers)Regulations • The Banking (Capital Adequacy) Regulations • The Banking (Licence Fees) Regulations • The Financial Institutions (Establishment of Branches) Regulations • The Financial Institutions (Amalgamation and Transfers) Regulations • The Financial Institutions (Capital Adequacy) Regulations • The Financial Institutions (Licence Fees) Regulations • The Bank of Jamaica (Building Societies) Regulations • The Building Societies (Licences) Regulations

5.3.1. On-site Examinations

On-site examinations which are statutorily conducted at least once each year, or more frequently if deemed necessary by the Supervisor, include assessments of key aspects of an entity's operations such as capital adequacy, treasury operations, asset quality, earnings sustainability, market risk sensitivities, information systems infrastructure and disaster recovery/business continuity arrangements. The Bank has also continued to strengthen and deepen its risk focused approach to supervision which involves enhanced off-site and pre-examination procedures, with increased scrutiny on licensees' corporate governance frameworks, risk management and operational/group structures. The outcome of these assessments identifies those areas that pose the greatest potential risk to each institution's operations and informs the scope of on-site reviews and the level and focus of supervisory resources to be assigned to each examination.

A critical component of the on-site exercise is also a review of licensees' frameworks (i.e. policies, controls and practices) for anti-money laundering and counter-financing of terrorism (AML/CFT). This is in order to ensure that these meet the requirements of local legislation (such as The Proceeds of Crimes Act and The Terrorism Prevention Act), Bank of Jamaica Guidelines on Anti-Money Laundering and Combating of Terrorist Financing, as well as international obligations and standards promulgated by the United Nations (UN) Security Council Resolutions, the Financial Action Task Force (FATF) and the Caribbean Financial Action Task Force (CFATF) of which Jamaica is a member.[30,31]

5.3.2. Off-Site Reviews

Off-site assessments, which are performed continuously throughout the year, are primarily facilitated by prudential returns, which licensees are statutorily required to submit to the Bank of Jamaica at stated intervals (weekly, monthly, quarterly and annually), along with audit and other external reports. Such reviews involve analysis of the prudential returns for trends in operations and financial condition and also include an 'Early Warning System' whereby various financial and prudential indicators are monitored and subjected to scenario and stress tests to allow for forward looking assessments and pro-active supervisory responses. In this regard, the Financial Stability Department of the Research and Economic Programming Division of the Bank generates forecasts and scenario/ stress reports based on prudential information and, in collaboration with FISD, reviews and assesses system vulnerabilities arising from internal and external risk sensitivities related to market and economic developments locally and internationally.

[30]FATF is an inter-governmental body established in 1989, whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.

[31]CFATF is an organization of thirty states of the Caribbean Basin which have agreed to implement common counter measures to address criminal money laundering.

5.3.3. Outcomes

Feedback from the various reviews and assessments are provided by the Bank of Jamaica to licensees' management and Boards through a composite of formal meetings, official correspondence and written reports on examination findings, highlighting issues of concern and requiring remedial actions within specified time frames as may be necessary. Where there is evidence of 'unsafe and unsound' practices, the Bank of Jamaica utilizes sanction measures as provided under the respective financial legislation and in accordance with its supervisory "Ladder of Enforcement" which sets out the graduated series of supervisory actions in response to specified prudential concerns.

Underpinning the entire process is a constant review of the legal and policy framework and supervisory practice to ensure that these remain relevant as financial markets evolve domestically and internationally. The Bank of Jamaica is therefore also involved in recommending legislative enhancements and the provision of formal guidance to the industry through the dissemination of Best Practice Standards and other guidance. Further, the Central Bank actively promotes market discipline and disclosure through the quarterly publication of un-audited balance sheet data for each licensee, and key prudential indicators for each financial sub-sector and the combined deposit-taking system.[32]

[32]Quarterly data are published in the daily news media and on the Bank's website (www.boj.org.jm).

4.4. Current Issues In Banking Supervision

The global financial crisis significantly impacted the Jamaican economy in 2009, resulting in declines in major industries (notably bauxite) as well as in remittance inflows. Deposit-taking institutions were not immune to the economic impact, particularly in respect of the entities' credit portfolios. Consequently, during the year, the Bank continued the process of enhancement of its regulatory and policy framework to meet the challenges posed by the local and global financial landscape and undertook intensified monitoring and assessment of licensee's condition and performance on an individual and system basis. Specific policy initiatives during the year included the following:

5.4.1. Promotion of Enhanced Risk Management Framework in Deposit-Taking Entities

During 2009, the BOJ continued its systematic revision of the current suite of Standards of Best Practices for effective risk management. This was done in recognition of the need for further strengthening of the risk management and corporate governance frameworks in deposit-taking entities. In that regard, the following initiatives were undertaken in 2009:-

i) The **AML/CFT Guidance Notes** which were revised in 2008 and circulated to the industry for comments, were finalized in 2009 and submitted to the Minister of National Security for approval and gazetting as required by statute. The revisions principally incorporated the provisions of the Proceeds of Crime Act (POCA) and the POCA (Money Laundering Prevention) Regulations which were promulgated in 2007.

ii) The process of the comprehensive revision of the existing **Credit Risk Management Standard,** which was originally issued in 1996, continued in 2009. The revised Standard will reflect industry developments and trends in the credit risk profile of deposit-taking entities, as well as the evolution in requirements of internationally accepted standard setters (such as the Basel Committee and the International Accounting Standards Board) regarding the management and reporting of credit risk. This standard is scheduled to be issued to the industry for comment in 2010.

iii) **Specialised/Target Reviews of Information Technology Frameworks** - Information technology (IT) and e-banking services have become central to the operations of deposit-taking entities, while presenting significant risks to their ongoing operations. Consequently, the Bank of Jamaica has placed increased emphasis on the assessment of the adequacy of the risk management framework governing the IT operations of its licensees, with particular focus on areas such as IT security, business continuity planning and outsourcing of IT services. The assessment exercise involves both on and off-site reviews of the IT frameworks of licensed institutions. During 2009, IT onsite examinations were conducted for six systemically important institutions.

5.4.2. Consolidated/Conglomerate Supervision

Legislation governing the activities of deposit-taking entities was amended in 2002 to extend the regulatory and supervisory reach of the BOJ beyond the licensee itself, to include the wider financial group of which the licensee is a part. Among other matters, these amendments require groups to which deposit-taking licensees belong, to reorganize such that the licensee is directly owned by a financial holding company, which does not own other companies within the group unless those companies are regulated or supervised financial institutions. This provision is aimed at ensuring that groups are established, such that they can be supervised. In that regard, during 2009, the Bank of Jamaica continued the monitoring of the reorganizations/restructurings of financial groups of which deposit-taking entities formed a part. Progress was also made in the drafting of an enhanced legal framework for conglomerate and financial holding company supervision as part of the Omnibus Bill, in furtherance of objectives for enhancing the regime for consolidated and conglomerate supervision and ensuring full compliance with Basel Core Principles (see **Section 5.4.4** and **Section 5.5.1**).

5.4.3. Development of a Regional Crisis Management Plan

The Bank of Jamaica contributed to the development of a policy document for Regional Financial Crisis Management which was prepared by the Caribbean Group of Banking Supervisors, pursuant to a mandate from the CARICOM Central Bank Governors (see **Section 5.6.2**). The proposal to develop a regional plan was within the context of an increasing number of cross border financial conglomerates within the Caribbean in recent years. The Policy Document outlined the scope of such a plan and highlighted critical pre-requisites of participant jurisdictions as well as challenges to its execution. The objectives of the plan, which would be formalized via Memorandum(a) of Understanding between the key stakeholders will be to preserve the financial stability of regional jurisdictions which face contagion risk arising from the distress of a financial institution

5.4.4. Core Principles for Effective Banking Supervision

Consequent on the revision of the Core Principles for the Effective Supervision of Banking Entities by the Basel Committee on Banking Supervision (Basel Committee) in October 2006, the Bank of Jamaica re-commenced a self-assessment exercise, to benchmark its supervisory systems and standards with this internationally accepted standard, which was updated primarily to:-

- reflect greater consistency with other global best practice standards, such as the Basel II capital adequacy framework;
- promote more enhanced risk management and corporate governance frameworks in banking entities; and
- promote enhanced supervisory approaches and techniques by supervisory bodies/agencies.

This self-assessment process continued in 2009 with the resultant updating of a revised implementation Action Plan. It is expected that this initiative will provide for a smooth transition to implementing the Basel II Capital Adequacy Framework (see **Section 5.4.5**).[33]

5.4.5. Basel II

On 17 December 2009, the Basel Committee issued for consultation, proposals to strengthen the global capital and liquidity regulations with the objective of promoting a more resilient banking sector. This is aimed at improving the banking sector's ability to absorb shocks arising from financial and economic stress and reducing the risk of spillover from the financial sector to the real economy. Key areas covered by the reform proposals are:

- raising the quality, consistency and transparency of the capital base;
- strengthening the risk coverage of the capital framework;
- introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework; and
- the introduction of a series of measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress.

Bank of Jamaica has been using certain aspects of the proposed reforms in its capital adequacy framework for several years, most notably the use of a 6 per cent leverage ratio in addition to the risk based capital ratio of 10.0 per cent. In particular, the Bank uses a more stringent definition of Tier 1 or 'core' capital that does not recognise any form of unrealized revaluation gains on fixed assets, loan capital or retained earnings where these have not been specifically set aside in a non-distributable reserve account.

The Bank had originally projected 2010 – 2012 for Basel II implementation. In light of the developments in international markets over the past two years, as well as the pending reform of capital standards by the Basel Committee, the Bank suspended the timeline while still proceeding with work in accordance with its four phase strategy *viz*:

- Phase I – implementation of preconditions for Basel II, involving full compliance with the Revised Core Principles, inclusive of full implementation of consolidated supervision (see **Section 5.4.2**);
- Phase II – implementation of Pillar II (Supervisory Review Principles);
- Phase III – implementation of Pillar III (Transparency and Disclosure); and
- Phase IV – full adoption of Basel II with the implementation of Pillar I (quantitative assessments).

5.5. Legislative Developments

During 2009, in addition to the updating and issuing of Standards of Best Practice, the Bank was involved in the developments/initiatives as noted below.

[33]The Basel Committee on Banking Supervision is the international standard setting body for banking supervisors. The Committee has membership from 27 countries and encourages contact and cooperation among banking supervisory authorities worldwide.

5.5.1. Development of Omnibus Statute

This statute seeks to consolidate existing deposit-taking statutes (i.e. The Banking Act, The Financial Institutions Act, and The Bank of Jamaica (Building Societies) Regulations into one omnibus legislation. This exercise is aimed at

- removing inconsistencies;
- eliminating potential regulatory arbitrage opportunities across the existing statutes;
- incorporating Holding Company provisions; as well as
- effecting amendments necessary for Basel II implementation and full compliance with the Basel Core Principles.

5.5.2. Credit Regulations

The Credit Regulations have been comprehensively re-drafted to take account of, *inter alia*, the latest Basel Committee standards on credit risk and loan valuation, as well as impairment requirements prescribed under the International Financial Reporting Standards (IFRS) to achieve greater convergence in regulatory and accounting provisioning methodologies. The draft Regulations are expected to be issued to the industry for comment during 2010.

5.5.3. Qualifications of Auditors Regulation

Regulations that specify expectations of auditors in undertaking an external audit of a supervised financial institution, have been drafted and are with the Minister of Finance for approval. Among other things, the criteria specified in these regulations relate to the independence, experience and academic qualification of the external auditors. These proposed regulations will also require prior notification to the Bank of Jamaica of proposed appointments. The Bank will also be empowered to object to the appointment of an external auditor if, in the view of the Bank, there is evidence that such auditor is not in compliance with the provisions of the regulations.

5.5.4. Bank of Jamaica (Credit Union) Regulations

Regulations to establish the supervisory regime that will be applicable to credit unions have been drafted. These regulations will, among other things, prescribe prudential criteria and minimum solvency standards covering, *inter alia*, essential areas such as capital adequacy, liquid assets, credit limits, non-accrual and provisioning requirements, submission of financial statements and remedial action that can be taken by supervisory authorities with respect to unsafe and unsound practices or insolvency. The draft Regulations have benefited from extensive dialogue with the credit union sector and are pending presentation to Parliament by the Minister of Finance.

5.5.5. Building Societies (Licences) Regulations

The Building Societies (Licences) Regulations are being amended to harmonise the licensing fees payable by building societies on the granting of a licence and annually, with the rates applicable to commercial banks and FIA licensees.

5.5.6. Financial Investigations Division Bill

The BOJ, by virtue of its chairmanship of the Task Force on Financial Crime, has been involved in the development of legislation to govern Jamaica's Financial Intelligence Unit (FIU), namely the Financial Investigations Division (FID). When passed, the FID legislation will, among other matters, establish the FID on a statutory basis, thereby increasing the independence of this Unit and facilitating the Unit's admission to membership of the Egmont Group (the international body of FIUs). The legislation will also expand the investigative tools available to the FID for the investigation of suspected financial crimes and establish specific penalties for non-compliance with directives or requests for information issued by the FID. At year-end, the Bill, which was tabled in Parliament in November 2008, was before a Joint Select Committee of Parliament.

5.5.7. Credit Reporting Bill

In 2009, the Bank, in anticipation of parliamentary approval of the Credit Reporting Bill, commenced the establishment of the requisite operational framework. The Bill was eventually tabled in Parliament in July 2008, and passed by the Lower House on 09 February 2010. This statute will legislatively establish a credit reporting system in Jamaica which is designed to improve credit assessment processes, and facilitate enhanced risk management and loan pricing strategies throughout the financial sector. A licensing system will be imposed on persons who intend to offer credit reporting services, and prescribed reporting processes are outlined to ensure objective and standardized reporting of credit information under this regime. The Bank of Jamaica has been designated as the regulator for persons offering credit reporting services.

5.6. Supervisory Cooperation And Interaction

5.6.1. Financial Regulatory Council

The Financial Regulatory Council (the Council) was established in 2000 with the mandate to develop policies and strategies to facilitate greater co-ordination and information sharing between the various supervisory and related agencies operating in the Jamaican financial sector. The conduct of the Council is guided by a Memorandum of Understanding signed by each member. The Memorandum addresses a range of common issues, including information sharing. The Council comprises the following members:

- The Governor of the Bank of Jamaica, Chairman
- The CEO, Financial Services Commission (FSC);
- The CEO, The Jamaica Deposit Insurance Corporation; and
- The Financial Secretary

The Solicitor General who sits in an advisory capacity also attended the general meetings.

The Council continued to meet during 2009 to examine issues affecting the financial industry as well as issues specific to corporate groups comprising financial entities which are supervised respectively by the Bank of Jamaica and the

Financial Services Commission. Additionally, during the year, a special Technical Working Group comprising representatives of the Bank of Jamaica and the FSC was formed to give in-depth focus to technical and policy issues relating to prudential oversight of the financial sector.

5.6.2. Regional Interaction

5.6.2.1. The Caribbean Group of Banking Supervisors

During 2009, the Bank of Jamaica continued to administer the Secretariat functions for the Caribbean Group of Banking Supervisors (CGBS).[34] During the year, the Secretariat coordinated two administrative meetings, one Technical Working Group meeting, and in conjunction with the Cayman Islands Monetary Authority, the XXVII Annual Conference of the CGBS. Five training programmes were organized for the region with international facilitators from organizations such as Federal Reserve System (USA), Office of the Comptroller of the Currency (USA), the Financial Stability Institute, the Toronto Centre and the Caribbean Regional Technical Assistance Centre (CARTAC) see **section 5.6.3**).[35, 36, 37] The Bank of Jamaica served as host to four of these programmes. The Bank also participated in the discussions of two Technical Working Groups on the "Development of a Regional Crisis Management Plan" and "Consolidated Supervision".

5.6.2.2. Information Sharing

The Bank of Jamaica is one of the eleven CGBS signatories to a formal **Information Sharing Agreement (MOU)**, designed to facilitate cross border cooperation between home and host supervisory authorities for regional banking entities. During 2009, under powers of the MOU, the Bank engaged in discussions and exchanged relevant information with regional jurisdictions with common banking group presence. The Bank also participated in two regulatory colleges organized by the Office of the Superintendent of Financial Institutions (Canada) and a number of CGBS-organized regional colleges to discuss matters of mutual interest pertaining to cross border banking groups.

5.6.2.3. ASBA

Bank of Jamaica is a member of the hemispheric group, the Association of Banking Supervisors of

[34]The CGBS was established in 1983 under the aegis of the Central Bank Governors of member countries of the Caribbean Community (CARICOM), with the specific mandate to co-ordinate the enhancement of bank supervisory practices in the English-speaking Caribbean, consistent with internationally accepted standards. The CGBS was later extended to banking supervisors from non-CARICOM Caribbean territories and now comprises membership from fourteen regional jurisdictions, nine of which are presently core members of CARICOM.

[35] The Financial Stability Institute was jointly established by the Bank for International Settlements and the Basel Committee on Banking Supervision to assist supervisors around the world in improving and strengthening their financial systems.

[36]The Toronto Centre, which was established in 1998, with the support of the Government of Canada, the World Bank, the Schulich School of Business and the IMF, provides leadership training in financial sector supervision.

[37]CARTAC is a regional resource which provides technical assistance and training in core areas of economic and financial management at the request of participating countries. CARTAC operates as a project of the United Nations Development Programme (UNDP) with the IMF serving as the executing agency.

the Americas (ASBA).[38] During 2009, the Bank remained an active contributor to the work of the organisation, with representation on ASBA's Technical Committee and participation in an ASBA Working Group on Corporate Governance in Banking Institutions. The objective of this working group is to issue a standard for member jurisdictions to guide the assessment of corporate governance frameworks in banking institutions. At year-end, a draft document had been produced by that working group.

5.6.2.4. Caribbean Financial Action Task Force

In another area of regional involvement, the Senior Deputy Governor (Deputy Supervisor of Banks) continued to serve as the principal contact for Jamaica to the Caribbean Financial Action Task Force (CFATF). During 2009, a senior officer of the FISD and a senior member of the Legal Department participated as 'financial sector experts' in CFATF's AML/CFT Country Reviews of two regional member jurisdictions.

5.6.3. Other External Interactions

The Bank maintains interface with the Basel Committee on Banking Supervision (BCBS) both in its own capacity and in its role of Secretariat for the CGBS. Supervisory staff also accessed specialist training opportunities from overseas regulatory authorities including the Federal Reserve System (USA) and the World Bank (see **Section 5.6.2.1**).

[38]ASBA is a regional grouping of 37 Banking Supervisory Authorities whose membership spans 35 jurisdictions encompassing North, Central and South America and the Caribbean, with one non-regional member, Spain.

5.7. System Performance

5.7.1 Market Profile

Although the total number and composition of licensed deposit-taking entities remained unchanged during the year, the supervised entities offered their services through a smaller physical branch network of 177 locations, in comparison to 181 as at 31 December 2008 (see **Table 36**).[39] This was reflective not only of increasing offers of electronic payments and banking options (via internet, ATMs and point-of-sale terminals) but of further consolidation of operations as banks sought to become more efficient and maintain profit margins in challenging economic circumstances.

Despite a continued expansionary effect of revalued foreign currency portfolios, combined assets of the three deposit-taking sub-sectors grew at a slower pace during 2009, symptomatic of the global economic recession and its impact on the domestic economy.[40, 41] For 2009, total assets of the licensed deposit-taking institutions grew by 6.1 per cent to $775.8 billion, as against increases of 8.4 per cent and 14.2 per cent in 2008 and 2007, respectively.

Commercial banks continued to command the largest share of the market, accounting for 75.2 per cent of system assets, albeit lower than the 76.5

[39]The proposal by the Minister of Finance for the Bank of Jamaica to assume full supervisory responsibility for credit unions which numbered forty-seven at end-2009 will result in significant expansion of the number of supervised deposit-taking institutions in the future. (see also **Section 8.0**)

[40]Ten-day moving average as at 31 December 2009 was J$89.62 = US$1 compared to the similar measure as at 31 December 2008, which was J$80.22= US$1.

[41]Assets include guarantees/letters of credits and are shown net of provision for losses.

per cent at end-2008. Building societies increased their share to 20.5 per cent of the market, relative to 18.9 per cent at end- 2008. The share of FIA licensees continued to contract, accounting for 4.3 per cent of the market, in comparison to 4.5 per cent at the end of the previous year. The contraction in FIA licensee share was influenced by PanCaribbean Merchant Bank's exit from that sub-sector after being granted a commercial banking licence (see **Table 37**).

For the commercial banking sub-sector, National Commercial Bank Jamaica Limited and Bank of Nova Scotia Jamaica Limited remained the market leaders, accounting for a combined 69.8 per cent of total assets at end-2009, relative to 68.4 per cent at end-2008. Three of the seven commercial banks reported smaller asset bases in 2009, in comparison to one in 2008.

All building societies, reported expansion in their asset bases, contributing to growth of 15.2 per cent for that sub-sector, up from expansion of 12.6 per cent during 2008. Jamaica National

Table 36

Market Composition - Number of Licensed Deposit-Taking Entities

Supervised Entities	2005	2006	2007	2008	2009
Commerical Banks	6	6	6	7	7
FIA Licensees	5	5	4	3	3
Building Societies	4	4	4	4	4
Total	**15**	**15**	**14**	**14**	**14**

Table 37

Market Share of Licensed Deposit-Taking Entities

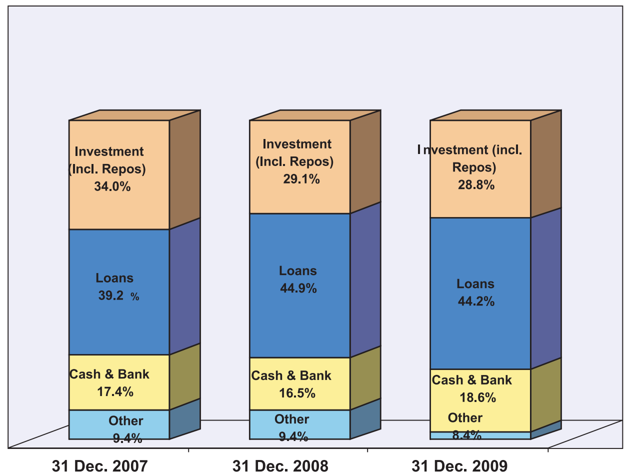
	31-Dec-07		31-Dec-08		31-Dec-09	
Sub-sector	J$BN	%	J$BN	%	J$BN	%
Commercial Banks	504.2	74.8	559.2	76.5	583.1	75.2
Building Societies	122.9	18.2	138.4	18.9	159.4	20.5
FIA licensees	47.2	7.0	33.3	4.5	33.4	4.3
SYSTEM TOTAL	674.3	100.0	730.9	100.0	775.9	100.0

Building Society and Victoria Mutual Building Society maintained market leadership of that sub-sector, accounting for 88.1 per cent of total assets at end-2009 in comparison to 87.3 per cent at end-2008.

The asset base of FIA Licensees grew by 0.2 per cent in 2009, reversing the 29.5 per cent contraction in 2008 when PanCaribbean Merchant Bank exited that sub-sector. The contraction in the consolidated balance sheet of the FIA entities was impacted by the restructuring of one licensee.

Chart 23

Profile of System Assets
31 December 2007 - 2009



5.7.2. Balance Sheet Profile

The decelerated growth in assets was reflected in slower credit growth during 2009 which was also impacted by revaluation of foreign currency denominated portions of the portfolio. Nonetheless, Loans and Advances continued to be the largest concentration of assets, representing 44.2 per cent of the balance sheet at end-2009, down from 44.9 per cent at end- 2008 (see **Chart 23**). Total loans and advances increased by $17.5 billion or 5.3 per cent during 2009 to $350.7 billion, of which $4.2 billion represented growth in the domestic currency portfolio, with the remainder reflecting the revaluation impact on a reduced stock of foreign currency denominated loans. This compares with an increase of $64.9 billion (24.2 per cent) in the loan stock in 2008 when $33.0 billion represented domestic currency loans.

Investments (inclusive of repurchase agreements) increased by $10.1 billion or 4.7 per cent during the year to $223.2 billion. This was in contrast to the 7.1 per cent contraction in 2008. The expansion in the investment portfolio in 2009 primarily reflected the revaluation of US dollar denominated Government of Jamaica securities. The impact of this was partly offset by the liquidation of a portion of the investment portfolio to fund increased cash reserves (see **Section 5.7.2.1**). In 2008, the contraction was due to disposal and maturities, particularly with respect of Government of Jamaica Global Bonds. Consequently, at end-2009 the share of investment portfolio accounted for 28.8 per cent of assets *vis-à-vis* 29.1 per cent in 2008.

Deposit-taking institutions held higher levels of cash and bank balances at year-end. These, increased by $23.6 billion or 19.5 per cent and represented 18.6 per cent of assets, up from 16.5 per cent for the previous year. This was largely reflective of the higher cash reserve requirement that supervised entities were required to maintain during the year (see **Section 5.7.2.1**).

On the funding side, deposits increased by $38.4 billion or 8.7 per cent to $480.2 billion at end-2009 in comparison to growth of $19.1 billion or 4.5 per cent in 2008. Domestic inflows accounted for $11.3 billion ($14.1billion in 2008) while foreign currency deposits expanded by $27.2 billion, largely due to the depreciation of the domestic currency. The more rapid growth for 2009 reflected some shifting away from borrowings, particularly in overseas markets where liquidity and credit have been tight since the start of the global financial crisis. At year-end, foreign currency deposits of the banking system represented 41.2 per cent of total deposits, up from 38.6 per cent at end-2008.

With regard to the foreign currency denominated portfolio, assets (as expressed in US dollars) contracted by US$13 million or 0.3 per cent as against a reduction of US$105.0 million or 2.6 per cent during 2008. Foreign currency liabilities declined more sharply by US$161.0 million or 4.1 per cent in comparison to a contraction of US$22.0 million or 0.6 per cent in 2008. The decline in 2009 was reflective of lower borrowings in overseas markets, given tight liquidity conditions. The contraction in foreign currency liabilities resulted in a widening of the net long foreign currency position for the system to US$239.1 million at year-end, in comparison to a net long position of US$135.8 million at end-2008. Building societies reported expansion of US$71.0 million in their foreign currency asset portfolios which were possibly influenced by active overseas agency offices of the two largest societies, while commercial banks and FIA licensees reported respective contractions of US$52.0 million and US$32.0 million, respectively.

5.7.2.1. Liquidity

During 2009, supervised entities were required to comply with higher cash reserve and liquid asset requirements which were a part of monetary policy initiatives aimed at maintaining stability in the financial system. In January and February 2009, the statutory minimum d*omestic currenc*y cash reserve and liquid assets ratios were both increased by a total of 3.0 percentage points to 14.0 per cent and 28.0 per cent, respectively, following an earlier 2.0 percentage point increase in December 2008. The f*oreign currenc*y cash reserve and liquid asset ratios were also increased to 11.0 per cent and 25 per cent in January 2009 from 9.0 per cent and 23.0 per cent, respectively.[42] The lower cash reserve ratio of 1.0 per cent and liquid assets requirement of 5.0 per cent that apply to building societies satisfying a residential mortgage threshold of 40.0 per cent in relation to respective deposit bases remained in effect. All building societies continued to qualify for the lower differential ratios for both the domestic and foreign currency requirements throughout the year.

At year-end, all but one deposit-taking institution operated with cash reserves and liquid assets

[42]Foreign currency cash reserve and liquid assets statutory requirements are held in US dollars, Canadian dollars and Great Britain Pounds.

ratios exceeding the statutory requirements. The non-compliant licensee is under a special monitoring programme to achieve statutory compliance within the earliest time possible.

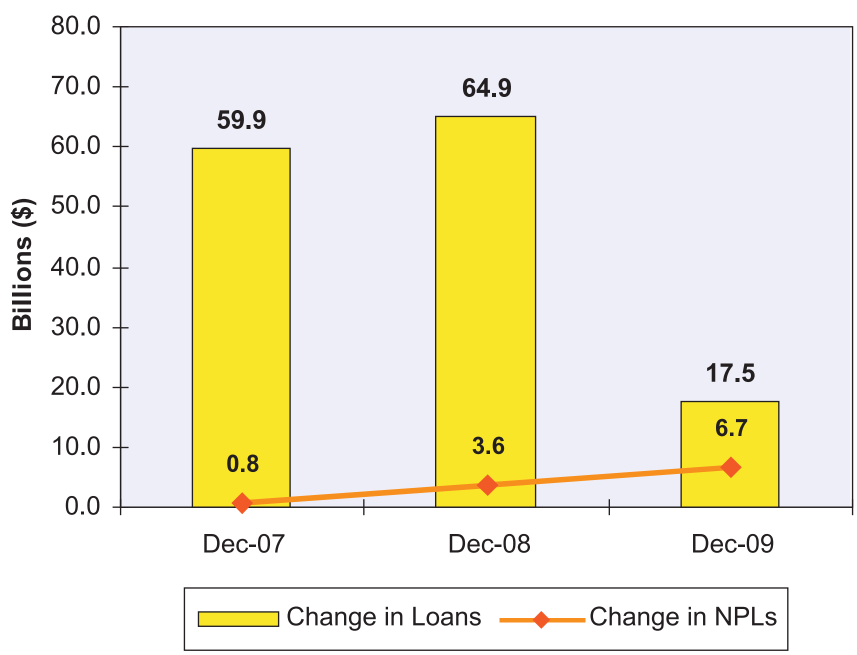
5.7.2.2. Asset Quality

During 2009, the system experienced deterioration in asset quality, symptomatic of the impact of the global recession and consequent decline in domestic economic performance. In nominal terms, non-performing loans 3 months & over (NPLs) increased by $6.7 billion or 68.0 per cent during 2009 to $16.4 billion. This was in comparison to increases of $3.6 billion or 57.6 per cent for 2008 and $0.8 billion or 14.2 per cent in 2007 (see **Chart 24**). The stock of NPLs represented 4.7 per cent of the total loan portfolio, as against 2.9 per cent at end-2008.

In light of the trends in loan performance, the Bank intensified its review/monitoring of licensees' credit portfolios both individually and on a system-wide basis, including scenario projections and frequent follow-up with licensees, with a view to implementing any necessary mitigating measures in order to preserve capital adequacy. In keeping with the Bank of Jamaica's credit and provisioning requirements, entities are required to set aside specific provisions against NPLs and a general provision against all other loans, which do not attract a specific provision. Additionally, where IFRS provisioning requirements result in lower provisioning levels than those prescribed under Bank of Jamaica standards, licensees are required to transfer the incremental amount from net profits into a special reserve. During 2009, the supervised entities set aside incremental provisions of $3.9 billion. Total provisions for

Chart 24

Annual Change in DTI's Loans and NPLs (3 mths & over)



loan losses covered 75.4 per cent of NPLs in comparison to 87.2 per cent at the end-2008. In addition, regulatory capital plus provisions created a buffer of 570.0 per cent of the value of NPLs, down from 819.7 per cent at the end-2008.[43]

5.7.2.3. Profitability

Notwithstanding the challenging economic climate, unaudited data submitted by licensees to the Bank indicated that the system recorded pre-tax profits of $22.1 billion, representing a pre-tax profit margin of 21.1 per cent for the calendar year 2009, relative to $24.6 billion and 26.1 per cent, respectively, for 2008. Returns on average assets (ROAA) also declined to 2.9 per cent from 3.5 per cent for 2008. Of net profits, approximately 80.0 per cent was retained in operations, more than 50.0 per cent of which was set aside in permanent capital reserves thus bolstering the regulatory capital base (see **Section 5.7.2.4**).

Although Gross Income increased by $8.5 billion (12.6 per cent) and the Net Interest Margin (NIM) improved to 8.8 per cent for 2009 from 7.8 per cent in 2008, higher non-interest expenses tempered the out-turn for the system. These non-interest expenses increased by $17.6 billion (49.0 per cent), reflecting primarily, higher staff costs ($6.7 billion) and increased provisioning for impaired assets and other loss events ($4.6 billion).

5.7.2.4. Capital

Shareholders equity grew by $17.3 billion or 19.8 per cent in 2009, attributable to a combination of current year profits, unrealised market gains as well as external capital injections. This compared to growth of $1.3 billion (1.6 per cent) in 2008 when international capital markets were impacted by adverse international financial market developments at that time.

In terms of the regulatory capital, which essentially represents the highest quality of equity in terms of permanence and availability to absorb losses, licensees proactively bolstered such resources through transfers of $5.5 billion from realised profits to statutory reserve funds as well as external injections of $4.0 billion in equity to avert deterioration in capital adequacy indicators. Total regulatory capital (net of impairment) was strengthened by $9.6 billion or 13.4 per cent, with all but two licensees reporting increases during the year. The faster growth in regulatory capital (13.4 per cent) *vis-à-vis* assets (6.1 per cent) resulted in the system reflecting a stronger primary ratio of 10.4 per cent, relative to 9.6 per cent at end-2008. In addition, the Risk Weighted Capital Adequacy ratio increased to 18.9 per cent from 15.4 per cent at end-2008.[44] At year-end, all licensees continued to maintain primary and risk weighted capital adequacy ratios above the minimum requirements of 6.0 per cent and 10.0 per cent, respectively, despite capital base impairment of two licensees. In both instances, impairments resulted from losses primarily attendant on increased provisioning.

[43] Provisions for Loan Losses represent a combination of assessments under International Financial Reporting Standards and incremental amounts required in accordance with the Central Bank's prudential guidelines

[44] Primary ratio = Ratio of regulatory capital to total assets.

Respective parent companies took ameliorative action by injecting additional capital.

5.8. Credit Unions

5.8.1. Supervisory Developments

The Bank of Jamaica continued its programme of on-site examinations of credit unions during 2009. This included the provision of feedback to the Boards and Management which provided the basis for strengthening of the overall operations and practices of most credit unions as they prepare for licensing under the imminent Regulations.

The Central Bank also continued its on-going monitoring of credit unions by way of analysis of monthly and quarterly prudential submissions to the Bank. In addition to prudential returns, the 2008 audited financial statements for all credit unions were submitted to the Bank during the review year.

The number of registered credit unions decreased by 1 to 47, with the merging of COK Co-operative Credit Union Limited and Sodality Co-operative Credit Union Limited to form COK Sodality Co-operative Credit Union Limited, effective 01 November 2009. This merger was facilitated by the injection of funds by the umbrella organization (Jamaica Cooperative Credit Union League (JCCUL)) via its Stabilization Fund. At the end of 2009, the JCCUL also had one credit union under direct supervision (a form of temporary management). Of the 47 registered credit unions on record at end-2009, two remained outside of the JCCUL membership. Both entities were however required to submit monthly and quarterly prudential returns to the Bank.

In 2009, several credit unions obtained the approval of their membership to amend their Rules to allow for the issue of permanent shares to strengthen capital base, thus ending the long standing tradition and practice of recognizing members' share savings as part of institutional capital. This change of policy/practice arose from recognition of the fact that withdrawable share savings do not qualify as risk capital. The amendment is consistent with the provisions of the draft Bank of Jamaica (Credit Unions) Regulations and International Financial Reporting Standards.

5.8.2. Credit Union Sector Performance Highlights

At end-2009, assets of the credit union sector increased by 11.6 per cent to $56.6 billion, relative to 2008. Loans increased by $2.2 billion or 6.3 per cent to $37.0 billion or 65.4 per cent of overall assets as at end-2009. Total savings of $44.1 billion were $4.5 billion or 11.4 per cent above the level at end-December 2008 and provided the primary source of funding for loans to members. Total credit union membership increased by 10 278 to 980 665 at end-2009 (see **Table 38).**

Table 38

Key Credit Union Indicators Selected Credit Union Data 2005 – 2009						
Year End	**# of Credit Unions**	**Membership**	**Total Savings Fund ($BN)**	**Total Loans (Gross) ($BN)**	**Loans/Savings Ratio (%)**	**Total Assets ($BN)**
2005	48	811 920	25.5	21.3	83.5	32.6
2006	48	874 805	30.4	25.9	85.2	38.5
2007	48	927 613	*34.4*	*31.0*	*90.1*	*44.3*
2008	48	970 387	39.5	34.8	88.1	50.7
2009	47	980,665	44.1	37.0	84.04	56.6

Source: Prudential Returns submitted by credit unions to the Bank of Jamaica.

Table 39

**ANNUAL PRUDENTIAL INDICATORS OF COMMERCIAL BANKS,
LICENSEES UNDER THE FINANCIAL INSTITUTIONS ACT (FIA) AND BUILDING SOCIETIES
PUBLISHED PURSUANT TO SECTION 16 (6) OF THE BANKING ACT AND THE FIA
AND REGULATION 49 OF THE BANK OF JAMAICA (BUILDING SOCIETIES) REGULATIONS, 1995**

31-Dec-09

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			System Total (aggregation of all 3 sectors)		
	Dec-09	Dec-08 [b]	Dec-07	Dec-09	Dec-08 [b]	Dec-07	Dec-09	Dec-08	Dec-07	Dec-09	Dec-08	Dec-07
Number of institutions in operation	**7**	7	6	**3**	3	4	**4**	4	4	**14**	14	14
J$MN												
[1]Total Assets (incl. contingent accounts)	**583,083**	559,226	504,224	**33,370**	33,293	47,195	**159,385**	138,387	122,861	**775,838**	730,906	674,280
[2]Total Assets (excl. contingent accounts)	**566,143**	547,229	487,896	**32,854**	32,617	46,432	**159,296**	138,307	122,791	**758,293**	718,153	657,119
Cash & Bank Balances	**117,220**	98,624	91,328	**1,630**	1,286	3,595	**25,742**	21,053	22,338	**144,592**	120,963	117,261
Investments [incl. Securities Purch.] (net of prov.)	**162,010**	160,080	167,374	**19,657**	18,681	27,129	**41,499**	34,295	34,806	**223,166**	213,056	229,309
Total Loans (gross)	**256,390**	246,165	195,103	**9,691**	10,819	14,207	**84,580**	76,161	58,966	**350,661**	333,145	268,276
Total Loans (net of IFRS prov.) [a]	**250,352**	242,473	192,039	**9,289**	10,710	14,130	**83,578**	75,441	58,258	**343,219**	328,624	264,427
Total Deposits	**357,097**	333,960	321,053	**13,017**	14,519	17,153	**110,094**	93,285	84,423	**480,208**	441,764	422,629
Borrowings (incl. repos)	**109,925**	117,028	85,989	**14,251**	12,781	20,020	**21,013**	20,613	13,967	**145,189**	150,422	119,976
Non-Performing Loans [NPL] (3 mths & >)	**10,800**	6,443	3,903	**808**	584	531	**4,830**	2,759	1,774	**16,438**	9,786	6,208
Provision for Loan Losses [a]	**9,653**	6,863	5,037	**691**	339	221	**2,058**	1,336	1,158	**12,402**	8,538	6,416
[3] Capital Base	**59,010**	50,508	42,523	**4,716**	4,285	5,415	**17,026**	15,652	13,805	**80,752**	70,445	61,743
Contingent Accts [Accept., LC's & Guarantees]	**16,940**	11,997	16,328	**516**	676	763	**89**	80	70	**17,545**	12,753	17,161
Funds Under Management	**271**	229	0	**0**	0	209	**0**	0	0	**271**	229	209
Repos on behalf of or for on-trading to clients	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
%												
Rate of Asset 1 Growth	**4.3%**	10.9%	15.0%	**0.2%**	-29.5%	1.6%	**15.2%**	12.6%	16.4%	**6.1%**	8.4%	14.2%
Rate of Deposit Growth	**6.9%**	4.0%	13.5%	**-10.3%**	-15.4%	22.4%	**18.0%**	10.5%	14.7%	**8.7%**	4.5%	14.1%
Rate of Loans Growth (gross)	**4.2%**	26.2%	27.1%	**-10.4%**	-23.8%	27.5%	**11.1%**	29.2%	34.7%	**5.3%**	24.2%	28.7%
Rate of Capital Base Growth	**16.8%**	18.8%	11.7%	**10.1%**	-20.9%	2.8%	**8.8%**	13.4%	14.6%	**14.6%**	14.1%	11.5%
Rate of NPL (3 Mths &>) Growth	**67.6%**	65.1%	14.5%	**38.4%**	10.0%	7.7%	**75.1%**	55.5%	15.4%	**68.0%**	57.6%	14.2%
Investments :Total Assets [1]	**27.8%**	28.6%	33.2%	**58.9%**	56.1%	57.5%	**26.0%**	24.8%	28.3%	**28.8%**	29.1%	34.0%
Loans (net of prov.):Total Assets [1]	**42.9%**	43.4%	38.1%	**27.8%**	32.2%	29.9%	**52.4%**	54.5%	47.4%	**44.2%**	44.9%	39.2%
Fixed Assets:Total Assets [1]	**1.7%**	1.7%	1.7%	**0.7%**	1.0%	0.3%	**1.5%**	1.7%	1.7%	**1.7%**	1.7%	1.6%
Loans (gross) : Deposits	**71.8%**	73.7%	60.8%	**74.4%**	74.5%	82.8%	**76.8%**	81.6%	69.8%	**73.0%**	75.4%	63.5%
Liquidity												
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities [4]	**14.0%**	10.8%	9.0%	**14.0%**	10.8%	9.0%	**1.0%**	1.0%	1.0%	**10.5%**	8.3%	7.1%
Average Domestic Currency Liquid Assets: Average Domestic Prescribed Liabilities [4]	**36.6%**	36.9%	30.0%	**29.2%**	22.8%	46.9%	**17.8%**	12.4%	8.2%	**31.3%**	30.3%	25.0%
Asset Quality												
Prov. For Loan Losses:Total Loans (gross)	**3.8%**	2.8%	2.6%	**7.1%**	3.1%	1.6%	**2.4%**	1.8%	2.0%	**3.5%**	2.6%	2.4%
Prov. For Loan Losses: NPL (3 Mths &>)	**89.4%**	106.5%	129.1%	**85.5%**	58.0%	41.6%	**42.6%**	48.4%	65.3%	**75.4%**	87.2%	103.4%
NPL (3 Mths &>):Total Loans (gross)	**4.2%**	2.6%	2.0%	**8.3%**	5.4%	3.7%	**5.7%**	3.6%	3.0%	**4.7%**	2.9%	2.3%
NPL (3 Mths &>): (Total Assets[1] + Provision for loan losses)	**1.8%**	1.1%	0.8%	**2.4%**	1.7%	1.1%	**3.0%**	2.0%	1.4%	**2.1%**	1.3%	0.9%
Capital Adequacy												
Deposits + Borrowings: Capital (:1)	**8.0**	9.0	9.6	**5.9**	6.5	7.0	**7.8**	7.4	7.2	**7.8**	8.5	8.8
Capital Base:Total Assets[1]	**10.1%**	9.0%	8.4%	**14.1%**	12.9%	11.5%	**10.7%**	11.3%	11.2%	**10.4%**	9.6%	9.2%
[5] Capital Adequacy Ratio [CAR]	**18.3%**	14.0%	14.6%	**22.4%**	20.8%	23.5%	**20.4%**	20.3%	19.9%	**18.9%**	15.4%	16.0%
NPL (3 mths &>):Capital Base+Prov for loan losses	**15.7%**	11.2%	8.2%	**14.9%**	12.6%	9.4%	**25.3%**	16.2%	11.9%	**17.6%**	12.4%	9.1%
Profitability												
[6] Pre - tax Profit Margin (for the Calendar Quarter)	**19.5%**	19.7%	26.0%	**-6.0%**	9.7%	15.6%	**18.2%**	11.0%	19.7%	**18.3%**	17.8%	24.5%
Pre - tax Profit Margin (for the Calendar Year)	**23.4%**	27.5%	29.0%	**7.7%**	15.9%	18.7%	**14.0%**	21.8%	17.6%	**21.1%**	26.1%	26.7%
Return on Average Assets (for the Calendar Quarter)	**0.7%**	0.7%	0.9%	**-0.2%**	0.3%	0.4%	**0.6%**	0.4%	0.5%	**0.6%**	0.6%	0.8%
Return on Average Assets (for the Calendar Year)	**3.4%**	3.9%	3.9%	**0.9%**	1.3%	1.9%	**1.8%**	2.5%	1.9%	**2.9%**	3.5%	3.4%
[7] Income Assets/Expense Liabilities (at 31 December)	**103.0%**	102.4%	102.5%	**104.8%**	105.5%	114.4%	**109.3%**	109.3%	108.2%	**104.4%**	103.9%	104.4%

Notes:

n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 11 March 2010. Prior years indicators may have revisions arising from amendments.

[a] Effective January 2004, the Bank of Jamaica revised its reporting requirements in line with International Financial Reporting Standards (IFRS) and in this regard the following change was effected:

The composition of "Provision for Loan Losses" has been segregated into two (2) distinct components being:

i) provision for losses computed in accordance with IFRS; and

ii) any incremental provisioning necessary under prudential loss provisioning requirements treated as an appropriation from net profits.

Consequently, "Total Loans (net of prov.)" represents gross loans net of IFRS loan loss provisions per (i) above

[b] The Minister of Finance approved the granting of a commercial banking licence to PanCaribbeanBank Limited, (formerly Pan Caribbean Merchant Bank Limited), with effect from 23 June 2008. Consequently, the merchant banking licence previously issued to Pan Caribbean Merchant Bank Limited under the Financial Institutions Act was surrendered.

[1] Total Assets and Liabilities reflected net of Provision for Losses and include Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit).

In keeping with IFRS, Total Assets and Liabilities were redefined to include Contingent Accounts.

[2] Total Assets net of Provision for Losses and Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit).

[3] Capital Base - Banks & FIA Licensees: (Ordinary Shares+ Qualifying Preference Shares+ Reserve Fund + Retained Earnings Reserve Fund + Share Premium) less impairment by net losses of individual institution.

- Building Societies: (Permanent Capital Fund + Deferred Shares + Capital Shares + Reserve Fund + Retained Earnings Reserve Fund) less impairment by net losses of individual society.

[4] Prescribed Liabilities include:

(i) deposit liabilities, (ii) reservable borrowings and interest accrued and payable on (i) & (ii).

[5] Capital Adequacy Ratio (CAR): Qualifying Capital (Tier 1 + Tier 2 capital items less prescribed deductions) in relation to Risk Weighted Assets and Foreign Exchange Exposure.

[6] Data includes extraordinary income/expenditure and adjustments for prior reporting period.

[7] Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less Non-Performing Loans (3 months & over).

Expense Liabilities comprise Deposits and Borrowings including Repo Liabilities (from BOJ, Banks, OFI etc).

Statutory Reserve Requirements :

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES**		
	Dec-09	Dec-08	Dec-07	**Dec-09**	Dec-08	Dec-07	**Dec-09**	Dec-08	Dec-07
Required Cash Reserve Ratio	**14.0%**	11.0%	9.0%	**14.0%**	11.0%	9.0%	**1% / 14%**	1% / 11%	1% / 9%
Required Liquid Assets Ratio (incl Cash Reserve)	**28.0%**	25.0%	23.0%	**28.0%**	25.0%	23.0%	**5% / 28%**	5% / 25%	5% / 23%

Effective 6 February 2009, the domestic currency cash reserve and liquid assets ratios for supervised licensees were further increased to 14% and 28% respectively.

Effective 2 January 2009, the domestic currency cash reserve and liquid assets ratios for supervised licensees were further increased to 13% and 27% respectively and the foreign currency cash reserve and liquid assets ratios were increased to 11% and 25% respectively.

Effective 3 December 2008, the domestic currency cash reserve and liquid assets ratios for supervised licensees were increased to 11% and 25% respectively.

** The requirements are differentially applied to societies not meeting the prescribed threshold of residential mortgage lending in relation to savings funds. Societies that meet the prescribed 'qualifying assets' threshold attract the lower reserve requirements indicated above. Societies which do not, are requested to meet the requirements which apply to banks and FIA licensees.

*** Subsequent Event**

Effective 1 March 2010, the foreign currency cash reserve and liquid assets ratio for supervised licensees were reduced to 11% and 23% respectively.

6. Supervision of Cambios and Remittance Companies

The Central Bank continued its supervision of cambios and remittance service providers in accordance with the Bank of Jamaica Act and the objective of maintaining orderly conditions in the financial markets. Supervision was effected through on-site inspections as well as in-house monitoring to assess the level of compliance with the Bank of Jamaica Operating Directions (Operating Directions) and the Anti-Money Laundering (AML) Regulations of the Proceeds of Crime Act (POCA).

During the review year, in-house monitoring continued to focus primarily on ensuring that all relevant persons (directors and shareholders of the companies and the manager with responsibility for the operation of each location) satisfied the Bank's 'Fit and Proper' criteria prior to the issuance and renewal of licences.[45] In this regard, 299 persons were assessed by the Bank's 'Fit and Proper' Committee in 2009, a 20.1 per cent increase, relative to 2008. Of the number for 2009, 200 operated remittance companies and the remainder, cambios.

The Central Bank also continued to closely monitor the cambios and remittance companies to ensure compliance with reporting requirements.

6.1. Cambios

During 2009, eight new cambio licences were issued while nine cambios voluntarily surrendered their licences. In addition to those surrendered in 2009, one cambio licence was automatically rescinded due to change of ownership of the company while three licences were revoked because of breaches of the Bank of Jamaica Operating Directions. Consequently, at the end of 2009, a total of one hundred and forty-two cambios were in operation compared to one hundred and forty-seven at the end of 2008 (see **Table 40**).

Cambios are licensed by and operate within the guidelines stipulated by the Bank of Jamaica. They are permitted to buy and sell foreign exchange in the form of currency notes, drafts, money orders and other foreign effects in unlimited amounts. The most important distinction between authorized dealers and cambios is that, unlike the former, cambios are not permitted to grant loans or take deposits.

At the end of the review year, the parishes of Kingston and St. Andrew continued to account for the largest concentration of cambios (see **Table 41**).

[45] Shareholders: those holding 10 per cent or more of shares of the relevant entity.

Table 40

Status of Cambio Licences as at 31 December 2009		
	2008	2009
New Locations Licensed	9	8
Locations Closed	8	13
Number of Locations	147	142
Number of Entities	66	65

Table 41

GEOGRAPHIC DISTRIBUTION OF CAMBIOS (%) as at 31 December 2009		
	2008	**2009**
Kingston & St. Andrew	29.9	30.3
St. James	15.7	15.5
St. Ann	10.2	9.9
St. Catherine	9.5	9.9
Manchester	8.8	8.5
Clarendon	7.5	7.0
Westmoreland	6.1	6.3
Others	12.3	12.6
Total	100.0	100.0

Cambios continued to play a significant role in engendering stability in the foreign exchange market in 2009 maintaining market share of approximately 35.0 per cent in the review year, relative to approximately 31.3 per cent in 2008.

6.2. Remittance Companies

The number of Remittance Service Providers (Primary Agents) remained unchanged at twelve, relative to end-2008. These agents continued to offer both inbound and outbound services (see **Table 42**). Inbound remittances largely flowed from four main corridors *viz* USA, UK, Canada and the Cayman Islands, with the USA accounting for the major share of these inflows in 2009.

During 2009, one hundred new applications were received from Primary Agents. On the other hand, ninety-eight applications were cancelled. As a result, the total number of applications on record increased to six hundred and ninety nine at the end of the review period, up from six hundred and ninety seven at end-2008. Of the total number of applications on record, twenty-nine were processed to facilitate the issuance of new licences to six Primary Agents.

In 2009, one hundred and ten new licences were issued to Primary Agents, granting approval to operate at sixty-six discrete locations through a network of branches and sub-agents. During the period, eighty-three licences representing sixty-four discrete locations were relinquished. As a result, the number of discrete locations licensed increased to four hundred and eighty-six at end-2009 from four hundred and eighty four at end-2008.

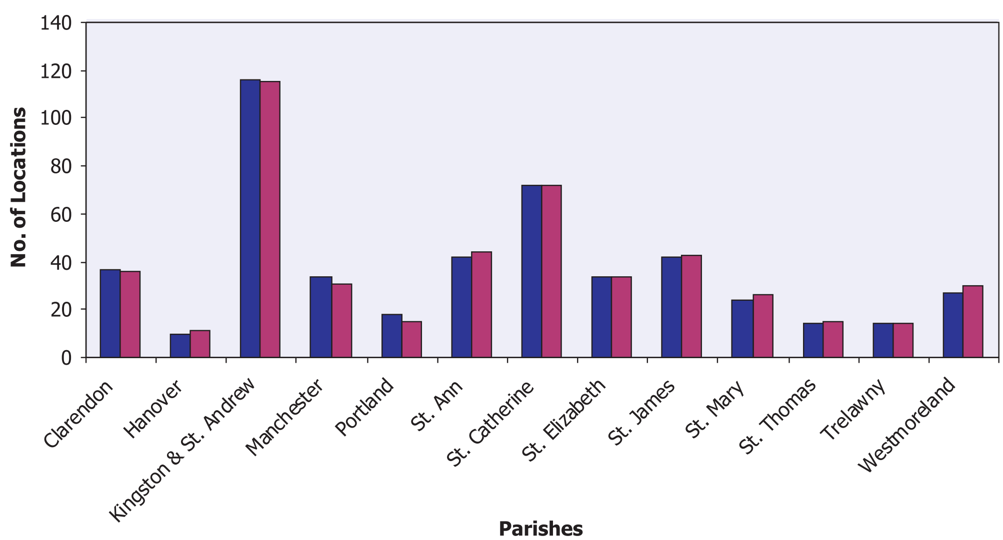
The largest concentration of remittance locations was in the Kingston & St. Andrew region, which accounted for 23.7 per cent, relative to 24.0 per cent at the end of 2008 (see **Chart 25)**.

Table 42

Status of Remittance Licences as at 31 December 2009		
	2008	2009
New Discrete Locations Licensed	45	66
Discrete Licensed Locations Cancelled	57	64
Number of Discrete Locations	484	486
Total Number of Applications	697	699
Number of Primary Agents	12	12

Chart 25

Geographic Distribution of Remittance Locations as at 31 December 2009(3 mths & over)



7. External Sector Developments

7.1. International Economic Developments

7.1.1. Overview

In 2009, the global economy experienced the deepest recession since the Great Depression of the 1930's. Consumption in several advanced economies declined significantly, inflation was subdued, industrial production declined and unemployment surged amidst the global economic contraction. In response to the crisis, several central banks and governments undertook a number of initiatives to stimulate the credit market and growth. As a result, the slowdown in economic activity abated significantly for most advanced economies by the second half of the year. However, recovery remained fragile as unemployment levels remained high.

7.1.2. Output

The global economy was estimated to have contracted by 0.8 per cent in 2009, following growth of 3.0 per cent in 2008, reflecting declines in both advanced and developing countries. However, the larger developing economies, such as China and India, continued to experience growth, albeit at slower rates than in 2008. For the advanced economies, economic activity contracted by 3.2 per cent, following growth of 0.5 per cent in 2008 (see **Table 43**). This contraction reflected downturns in consumption, industrial production and the housing markets in several economies as a result of tightened credit conditions and high unemployment. For the developing countries, declines in exports, particularly for countries that had strong trade links with the US and Europe, was the major factor underlining the moderation in growth for this set of economies (see **Table 44**).

In an attempt to revive their respective economies, central banks and governments in advanced and developing countries instituted stimulus packages. In January, for example, the US announced a US$825.0 billion addition to the stimulus package that was passed in September 2008, as well as an increase in its purchases of mortgage-backed securities to US$1.25 trillion from US$500.0 billion. Japan and the UK undertook similar measures to address the crisis with packages equivalent to US$154.0 billion and US$30.0 billion, respectively, in subsidies and tax breaks. Among the developing nations, China and India implemented packages of US$585.0 billion and US$60.0 billion, respectively. In the context of the economic downturn and low inflation, central banks significantly reduced benchmark interest rates and embarked on liquidity injection programmes. Consequently, several economies returned to growth in the latter part of the year. Notwithstanding the increased spending as a result of the stimulus packages, unemployment rose by an average of 1.6 percentage points for the advanced economies (see **Table 43**).

Table 43

INDUSTRIAL ECONOMIES Real GDP, Consumer Prices and Unemployment Rates (Annual percentage change and per cent of labour force)								
Country	GDP		Unemployment Rate		Inflation Rate**		CB Target Interest Rates***	
	2008	2009*	2008	2009*	2008	2009*	2008	2009*
Advanced Economies	0.5	-3.2	6.4	8.0	3.4	0.1		
of which								
USA	0.4	-2.4	5.8	9.3	3.8	-0.4	0.00 – 0.25	0.00-0.25
UK	0.5	-5.0	5.7	7.7	3.6	1.9	2.00	0.50
Euro Area	0.6	-4.0	7.6	9.4	3.3	0.3	2.50	1.00
Canada	0.4	-2.6	6.2	8.3	2.4	0.1	1.50	0.25
Japan	-1.2	-5.1	4.0	5.1	1.4	-1.1	0.30	0.10

Source: The World Economic Outlook Update: January 2010 , International Labour Office, Statistics Offices of individual countries
** Estimates*
*** Annual average*
**** End-of-period*

7.1.3. Inflation

There was a significant decrease in global inflation in 2009. In advanced economies, annual inflation fell to 0.1 per cent in 2009 from 3.4 per cent in 2008. Inflation for developing countries also declined by 4.0 percentage points to 5.2 per cent in 2009 (see **Tables 43 & 44)**. This reflected the impact of reductions in the prices of both fuel and non-fuel commodities.

7.1.4. Selected Exchange Rates

The currencies of selected industrialised economies depreciated against the US dollar by an average of 4.6 per cent in 2009, following an appreciation of approximately 3.2 per cent in the previous year (see **Table 45**). In particular, the GBP depreciated by 15.5 per cent vis-à-vis the US dollar, reflecting the weakness in the UK economy related to high levels of government debt, low interest rates, a widening trade deficit and a weakened financial system. The overall strengthening of the US dollar vis-à-vis the other currencies largely reflected a flight to the perceived security of the US dollar during 2009, as the global recession affected investors' confidence. In contrast, the Japanese Yen appreciated against the dollar, possibly reflecting the continued unwinding of carry trade positions between the two currencies.[46]

7.1.5. Commodity Markets

Commodity prices, as measured by the IMF's Index of Primary Commodity Prices (IPCP), declined by 31.0 per cent in 2009, following a 27.5 per cent increase in 2008. The fall in the IPCP resulted from declines in both the energy sub-index and the non-fuel commodities sub-index. The reduction in demand for commodities resulting from the contraction in world economic activity was largely responsible for these declines.

[46]Carry trade is a strategy in which an investor borrows a certain currency associated with a relatively low interest rate (i.e. Japanese Yen) and uses the funds to purchase a different currency associated with a higher interest rate (i.e. US Dollar).

Table 44

Selected Developing Countries Real GDP & Consumer Prices *(Annual per cent Change)*				
Country	**GDP**		**Inflation Rate****	
	2008	2009*	2008	2009*
Developing Countries	**6.0**	**-1.1**	**9.2**	**5.2**
Western Hemisphere	**4.2**	**-2.5**	**7.9**	**6.1**
Argentina	6.5	-2.5	8.6	5.6
Brazil	5.8	-0.7	5.7	4.8
Chile	4.5	-1.7	8.7	2.0
Colombia	4.0	-0.3	7.0	4.6
Dominican Republic	4.7	0.5	10.6	1.0
Ecuador	3.0	-1.0	8.4	5.0
Mexico	1.8	-7.0	5.1	5.4
Peru	9.2	1.5	5.8	3.2
Uruguay	6.5	0.6	7.9	7.5
Venezuela	6.0	-2.0	30.4	29.5
Caribbean***	**2.7**	**-0.1**	**7.7**	**3.4**
Antigua & Barbuda	1.8	-6.7	5.3	-0.8
Barbados	0.2	-5.3	8.6	3.1
Dominica	3.2	-1.5	6.3	1.8
Guyana	3.1	3.1	8.1	2.9
Jamaica	-0.9	-3.4	22.0	9.4
St. Kitts & Nevis	4.6	-8.5	5.4	3.4
St. Vincent & Grenadines	-0.6	-0.6	10.1	4.2
Trinidad & Tobago	2.3	-3.0	14.5	1.3
Developing Asia	**7.8**	**6.2**	**7.5**	**3.0**
China	9.0	8.7	5.9	-0.7
India	7.3	5.4	8.3	8.7
Indonesia	6.1	4.0	9.8	5.0
Malaysia	5.8	-3.6	5.4	-0.1
Philippines	4.4	1.0	9.3	2.8
Thailand	4.7	-3.5	5.5	-1.2
Middle East	**6.1**	**2.0**	**15.0**	**8.3**

Sources: The World Economic Outlook Update, January 2010, Statistics Offices of individual countries,
* Estimates, **Annual average, ***GDP weighted

Table 45

Advanced Economies: Exchange Rates *(Annual Average)*				
	US Dollars per Unit of National Currency		**Annual Percent Change**	
	2008	**2009**	**2008**	**2009**
Canadian Dollar	0.943	0.878	0.8	-7.0
Japanese Yen[/1]	103.1	93.43	-12.4	-9.4
Pound Sterling	1.852	1.565	-7.5	-15.5
Euro	1.470	1.394	7.2	-5.2

Crude oil prices, as measured by the benchmark, West Texas Intermediate, averaged US$61.79 per barrel (bbl) in 2009, representing a decrease of 37.9 per cent for the year, relative to an increase of 37.7 per cent in 2008. Lower prices for crude oil primarily reflected the impact of reduced demand for the commodity in 2009 compared to 2008, as economic activity in both advanced and developing countries contracted.[47] Continued buoyant supply from both OPEC and non-OPEC countries resulted in excess supply and exerted further downward pressure on prices. Despite the year-over-year decline, however, crude prices trended upwards for much of 2009, from US$46.34 per barrel at the start of the year to US$79.36 per barrel at end December 2009. In 2008, prices had risen to a high of US$145.29 per barrel.

Within the non-fuel sub-index of the IPCP, the price of edibles fell by 13.1 per cent, compared with a growth rate of 23.3 per cent in 2008. This primarily reflected a 14.6 per cent decline in the price of food, compared with a growth rate of 23.3 per cent in 2008, as increased unemployment reduced demand for most commodities. The noticeable decline in fuel prices also reduced the demand for grains, such as corn and soybeans, used in the production of bio-diesel. Favourable weather conditions also supported supplies, reflected in the record production of some crops such as soybeans in the US.

Despite the general slowdown in world demand, the price of beverages rose by 1.6 per cent in 2009, albeit at a much slower rate than the 23.2 per cent recorded in 2008 (see **Table 46**). This reflected a 12.1 per cent increase in the price of cocoa as fears of a decline in supplies amid dry weather in the Ivory Coast, resulted in increased demand for the bean.[48] A 3.0 per cent increase in the price of Arabica coffee, as Brazil, a major producer entered a low-cycle of production, also contributed to the increase in the beverage index.

The industrial inputs sub-index also declined sharply in 2009, reflecting decreases in the prices of both agricultural raw materials and metals.[49] Similar to other commodities, these were negatively impacted by the contraction in world economic activity, particularly in the construction and transportation sectors.

7.1.6. International Trade Developments

7.1.6.1. World Trade Organization (WTO) Negotiations

On 14 September 2009, trade ministers from over 30 WTO member countries met in Geneva, with the aim of re-energizing the Doha talks and setting a timeline for its conclusion. This represents the first major meeting of trade ministers on the Doha round since July 2008, when talks broke

[47]The International Energy Agency (IEA) reported a decline of 1.6 per cent in world oil demand to 84.9 million barrels per day (bpd) in 2009, following a decline of 0.4 per cent in 2008. Most of the decline in consumption came from the Americas and Europe.

[48]The Ivory Coast is the world's largest producer of cocoa beans.

[49]Agriculture raw materials include the following items: timber, cotton, wool, rubber and hides.

Table 46

SUMMARY OF WORLD COMMODITY PRICES Annual Average per cent change		
	2008	**2009/1**
All Primary Commodities	**27.5**	**-31.0**
1. Non-fuel Commodities	7.4	-18.7
1.1 Edibles	23.3	-13.1
(a) Food	23.3	-14.6
(b) Beverages	23.2	1.6
1.2 Industrial Inputs	-5.7	-24.8
(a) Agricultural Raw Materials	-0.8	-16.9
(b) Metals	-8.0	-28.6
2. Energy	40.1	-36.9
Petroleum /2	37.7	-37.9

Sources: IMF Primary Commodity Price Index

/1Provisional

/2 West Texas Intermediate measure

down as ministers were unable to reach a compromise.[50] At the meeting, negotiations on specific issues related to liberalizing trade in agriculture, industrial goods and services were to be undertaken. Since the meeting, progress has been made in clarifying some of the issues relating to the non-tariff barriers, which have presented significant obstacles to many developing countries in their attempts to export to developed nations. There was also some progress made in the area of trade facilitation. The ministers reaffirmed their commitment to concluding the Doha round of negotiations in 2010.

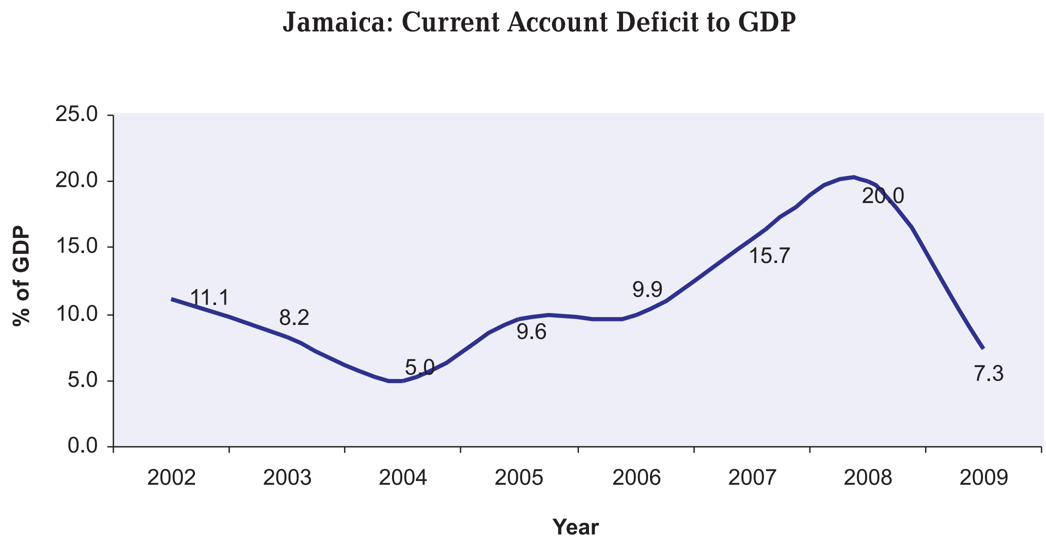
7.2. Balance of Payments

1.1.1. Overview

Based on provisional data, the current account deficit of Jamaica's balance of payments (BOP) is estimated to have narrowed by US$1 882.0 million to US$911.9 million (7.3 per cent of GDP) in 2009. This improvement followed four consecutive years of deterioration. The improvement in 2009 reflected a reduction in the deficit on the merchandise trade sub-account, complemented by an increase in the surplus on the services sub-account. The impact of these changes was partially offset by a decline in the surplus on the current transfers sub-account and a widening of the deficit on the income sub-account. Weak domestic and international demand conditions as well as the continued reversal in international commodity prices were the main factors influencing the improvement in the current account (see **International Economic Developments**).

[50]When the ongoing Doha Round of talks broke down in July 2008, two issues identified as problematic were the special safeguard mechanism for protecting developing countries' farmers and the sectoral negotiations on non-agricultural market access (NAMA). While the US and some food exporting countries wanted to allow developing countries to increase tariffs beyond ceiling levels only when import surges were very high, India, China and other developing countries wanted lower trigger points. In the discussions related to eliminating tariffs in certain identified industrial sectors, while the US wanted to make participation mandatory by linking it to other flexibilities, including lower reduction in average tariffs, India and some other countries wanted it to be strictly voluntary.

Chart 26



Net private and official investment inflows were, however, not sufficient to finance the current account deficit. Consequently, the NIR of the BOJ declined by US$43.6 million to US$1 729.4 million as at 31 December 2009, with gross reserves representing 13.4 weeks of projected imports of goods and services.

7.2.2 Merchandise Trade

The merchandise trade deficit contracted by US$1 679.5 million in 2009 (see **Table 47**). This improvement reflected a decline of 40.2 per cent in the value of imports (f.o.b.), which was partially offset by a reduction of 49.5 per cent in earnings from exports.

Exports

The estimated decline in export earnings resulted from a 51.7 per cent contraction in earnings from **General Merchandise Exports**, which largely emanated from reductions in the values of *Major Traditional Exports* and *Non-Traditional Exports.* However, there were increased earnings from *Other Traditional Exports* and *Re-Exports* (see **Table 48**).

Total earnings from *Major Traditional Exports* fell by 63.7 per cent in 2009 to US$525.7 million, largely reflecting a 70.1 per cent reduction in earnings from alumina. In addition, the value of bauxite exports declined by 25.4 per cent. The reduction in earnings from alumina exports was attributed to respective declines of 54.3 per cent and 34.5 per cent in the volume exported and the average price of the ore. Alumina export volumes were negatively impacted by the weak global economy which resulted in the closure of three alumina plants. Windalco, which operated two plants, shuttered operations in April, while Alpart ceased production in May. Amid high global inventories and weak demand for aluminium, the average alumina price also fell to a six-year low of US$202.6 per tonne. With regard to bauxite exports, the contraction in earnings in 2009

Table 47

SUMMARY OF BALANCE OF PAYMENTS (US$MN)	2008 1/	2009 2/	Change
CURRENT ACCOUNT	**-2 793.9**	**-911.9**	**1 882.0**
A. GOODS BALANCE	**-4 802.9**	**-3 123.4**	**1 679.5**
Exports (f.o.b.)	2 743.9	1 386.1	-1 357.8
Imports (f.o.b.)	7 546.8	4 509.6	-3 037.2
B. SERVICES BALANCE	**427.6**	**751.8**	**324.2**
Transportation	-644.9	-373.5	271.5
Travel	1 707.4	1 721.7	14.3
Other Services	-634.9	-596.4	38.5
GOODS & SERVICES BALANCE	**-4 375.3**	**-2 371.6**	**2 003.7**
C. INCOME	**-568.3**	**-586.3**	**-18.0**
Compensation of employee	83.7	58.6	-25.1
Investment income	-651.9	-644.9	7.0
D. CURRENT TRANSFERS	**2 149.6**	**2 046.0**	**-103.6**
General Government	100.7	148.8	48.1
Other Sectors	2 049.0	1 897.2	-151.7
2. CAPITAL & FINANCIAL A/C	**2 793.9**	**911.9**	**-1 882.0**
A. CAPITAL ACCOUNT	**18.1**	**10.4**	**-7.7**
General Government	48.6	45.3	-3.3
Other Sectors	-30.5	-34.9	-4.4
B. FINANCIAL ACCOUNT	**2 775.9**	**901.5**	**-1 874.4**
Official Investment	518.6	249.4	-269.2
Private Investment 3/	2 152.5	608.5	-1 544.0
Reserves 4/	104.8	43.6	

1/ Revised
2/ Provisional
3/ Includes Errors & Omissions
4/ Minus denotes increase

reflected a 27.8 per cent reduction in export volume. This was associated with weak demand for the commodity on the world market and the subsequent scaling back of operations in the sector.

Earnings from sugar exports contracted by 30.6 per cent, reflecting respective contractions of 11.6 per cent and 21.5 per cent in the quantity and price of sugar exported. Reduced export volumes resulted from a 6.9 per cent contraction in sugar production, primarily reflecting the impact of adverse weather conditions. The decline in the price of sugar in 2009 reflected further administered price cuts under the ACP/ EU Sugar Protocol.

Non-Traditional Exports fell by 43.5 per cent to US$530.5 million in 2009. The decline was due largely to lower receipts from mineral fuel exports in the context of a 37.9 per cent fall in the average price of crude oil on the international market. The movement in oil prices resulted from weak global demand for commodity derivatives over the year, reflecting the global economic crisis (see **International Economic Developments**).

In contrast to the performance of the other domestic export categories, *Other Traditional Exports* grew by 12.3 per cent to US$90.5 million in 2009. This was primarily related to increased earnings of 25.6 per cent and 11.3 per cent from coffee and rum exports, respectively (see **Table 48**). The impact was partially offset by a decline in earnings from gypsum. **Goods Procured in Ports** declined by 30.8 per cent in 2009, driven by the fall in oil prices, while **Free-Zone Exports** fell by 4.8 per cent. In contrast, **Re-exports** grew by 23.7 per cent.

Table 48

EXPORTS (US$MN)

	2008 1/	2009 2/	Change	% Change
GENERAL MERCHANDISE EXPORTS	**2 531.8**	**1 223.8**	**-1 308.0**	**-51.7**
DOMESTIC EXPORTS	2 469.6	1 146.7	-1 322.8	-53.6
Major Traditional Exports	1 449.3	525.7	-923.5	-63.7
Bauxite	114.5	85.4	-29.1	-25.4
Alumina	1 230.5	368.0	-862.5	-70.1
Sugar	104.3	72.3	-31.9	-30.6
Other Traditional Exports	80.6	90.5	9.9	12.3
Citrus	2.1	2.2	0.2	7.3
Cocoa	1.5	2.5	0.9	59.5
Coffee	28.1	35.3	7.2	25.6
Pimento	2.1	1.8	-0.4	-17.3
Rum	43.7	48.6	4.9	11.3
Gypsum	3.1	0.2	-2.9	-94.1
Non Traditional Exports	939.6	530.5	-409.2	-43.5
RE-EXPORTS	62.2	77.0	14.8	23.7
FREEZONE EXPORTS	**60.2**	**57.4**	**-2.9**	**-4.8**
GOODS PROC. IN PORTS	**151.8**	**105.0**	**-46.8**	**-30.8**
GRAND TOTAL	**2 743.9**	**1 386.1**	**-1 357.8**	**-49.5**

1/ Revised

2/ Provisional

Imports

Total expenditure on imports (c.i.f.) fell by 39.3 per cent to US$5 174.8 million in 2009, relative to an average annual growth of 17.4 per cent over the previous five years. The decline was influenced primarily by *General Merchandise Imports,* which reflected significant declines in *Mineral Fuels, Machinery & Transportation* and *Manufactured Goods* (see **Table 49**). With the exception of *Miscellaneous Commodities* and *Food*, all categories registered double-digit declines. The reduction in spending on mineral fuel imports was largely associated with the decline in the average international price of crude oil during 2009 (see **International Economic Developments**). Weak domestic demand, reflecting, in part, the lagged impact of the global economic crisis, also resulted in a decline in the volume of fuel imported.

7.2.3. Services

Net earnings from *Services* increased by an estimated 75.9 per cent to US$751.8 million in 2009, influenced primarily by declines in the deficits on *Transportation* and *Other Services* (see **Table 47**). There was a marginal increase in the net surplus on *Travel*.

Transportation

Net payments for transportation services were estimated at US$373.5 million in 2009, a contraction of US$271.5 million, relative to 2008. The narrowing of the deficit on this sub-account resulted from a decrease of US$288.4 million in gross payments, mainly associated with freight charges on lower volumes of imported goods. Partly offsetting this improvement was a reduction of US$16.9 million in gross inflows, attributed to a decline in arrivals of cruise visitors.

Table 49

VALUE OF IMPORTS BY SITC (C.I.F.) (US$MN)

	2008[1/]	2009[2/]	Change	% Change
GENERAL MERCHANDISE IMPORTS	**8 361.0**	**5 065.7**	**-3 295.3**	**-39.4**
0. FOOD	886.3	802.3	-84.0	-9.5
1. BEVERAGE. & TOBAC.	93.5	79.9	-13.6	-14.6
2. CRUDE MATS.	73.4	54.9	-18.6	-25.3
3. MINERAL FUELS	3 354.8	1 396.6	-1 958.2	-58.4
4. ANI. & VEG. OIL	53.9	33.9	-20.1	-37.2
5. CHEMICALS	951.0	740.3	-210.7	-22.2
6. MANUF. GOODS	883.6	555.8	-327.7	-37.1
7. MACH. & TRANSP.	1 264.3	820.2	-444.0	-35.1
8. MISC. MANUF. GOODS	682.0	461.6	-220.4	-32.3
9. MISC. COMMDS.	118.3	120.3	2.1	1.7
FREEZONE	**20.3**	**16.1**	**-4.2**	**-20.7**
GOODS PROC. IN PORTS	**143.5**	**93.0**	**-50.6**	**-35.2**
GRAND TOTAL	**8 524.8**	**5 174.8**	**-3 350.0**	**-39.3**

1/ Revised
2/ Provisional

Travel

Gross earnings from visitor expenditure were estimated to have declined by 1.9 per cent to US$1 938.1 million (13.8 per cent of GDP) in 2009. The impact of this was partly offset by an estimated decrease of US$51.7 million (19.3 per cent) in expenditure by Jamaicans travelling overseas. In this regard, net earnings from travel increased by US$14.3 million (0.8 per cent) when compared to 2008 (see **Table 47**). The marginal fall in inflows primarily reflected a decline of 3.7 per cent in total visitor arrivals, largely due to a 15.6 per cent contraction in cruise visitor arrivals (see **Table 50**). Stopover arrivals, however, grew by 3.6 per cent, reflecting increases in foreign national and non-resident Jamaican visitors.

The increase in stopover arrivals was primarily influenced by an expansion in the number of visitors from Canada, the USA and Asia. Growth largely resulted from increased discounts within the industry and promotional activities by the Jamaica Tourist Board (JTB). In addition, towards the middle of the year, there was a diversion of visitors from Mexico to the island due to the H1N1 virus outbreak in that country. Stopover arrivals from the USA, the island's strongest source market, increased by 1.9 per cent in 2009, relative to the 1.6 per cent growth recorded from this source in 2008. Notwithstanding the overall increase in arrivals from this source market, there were respective declines of 2.7 per cent and 2.2 per cent in the West and South US regions, partly reflecting the impact of the weak US economy. With regard to Canada, there was a strong expansion of 22.9 per cent in arrivals, boosted largely by additional direct flights from Winnipeg, Vancouver and Calgary into Montego Bay. Arrivals from all the other major source countries recorded declines, reflecting the impact of the global economic crisis. In particular, arrivals from the United Kingdom (U.K.), Jamaica's third largest source market declined by 2.4 per cent.

The reduction in cruise passenger arrivals continued to reflect the decision of some of the major cruise lines to re-route their itineraries to Alaska, Europe and Asia. In this context, there was a 15.6 per cent decline in the number of cruise passengers calling at the Island's ports during the year, continuing the downward trend since 2007. This outturn resulted from respective declines of 23.8 per cent and 10.3 per cent in the number of calls to the Montego Bay and Ocho Rios ports.

Growth in stopover arrivals to Jamaica outperformed the estimated average for selected Caribbean countries during the review period (see **Table 51**). With regard to cruise passenger arrivals, however, Jamaica continued to lag behind the average for the region (see **Table 52**).

Table 50

VISITOR ARRIVAL STATISTICS ('000)			
	2008 [1/]	2009 [2/]	% Change
Total Stopovers	**1 767.3**	**1 831.1**	**3.6**
Foreign National Stopovers	1 623.7	1 683.8	3.7
Non-resident Jamaican Stopovers	143.6	147.3	2.5
Cruise Passengers & Armed Forces	**1 092.3**	**922.3**	**-15.6**
Total Visitors	**2 859.5**	**2 753.4**	**-3.7**
Gross Estimated Expenditure (US$MN)	**1 975.8**	**1 938.1**	**-1.9**

[1/] *Revised*

[2/] *Provisional*

Table 51

Stopover Visitor Arrivals ('000) (Selected Caribbean Countries)			
	2008	2009	% Change
Antigua & Barbuda	265.6	234.4	-11.7
Bahamas	1 462.4	1 326.7	-9.3
Barbados	563.9	518.6	-8.0
Cayman Islands	302.9	272.0	-10.2
Cuba	2 348.3	2 429.8	3.5
Dominican Republic	3 979.7	3 992.3	0.3
Jamaica	**1 767.0**	**1 831.1**	**3.6**
Martinique	480.2	443.2	-7.7
St. Lucia	295.8	278.5	-5.8
St. Maarten	475.4	440.2	-7.4
Total	**11 941.2**	**11 766.7**	**-1.5**

Source: Caribbean Tourism Organization

Table 52

Cruise Visitor Arrivals ('000) (Selected Caribbean Countries)			
	2008	2009*	% Change
Antigua & Barbuda	580.9	712.8	22.7
Bahamas	2 861.1	3 255.8	13.8
Barbados	597.5	635.7	6.4
Cayman Islands	1 553.1	1 520.4	-2.1
Dominica	386.4	532.4	37.8
Jamaica	**1 092.3**	**922.3**	**-15.6**
St. Lucia	619.7	699.3	12.8
St. Maarten	1 345.8	1 215.1	-9.7
Total	**9 036.7**	**9 493.9**	**5.1**

Source: Caribbean Tourism Organization

**Projections*

Other Services

The deficit on *Other Services* narrowed by 6.1 per cent to US$596.4 million in 2009, influenced principally by a contraction of US$42.5 million in outflows.[51] The estimated decline in outflows mainly reflected a reduction of US$33.5 million in payments for insurance services. This was largely associated with lower payments for freight charges due to a contraction in imports. Partly offsetting this improvement was a decline of US$4.1 million in inflows, stemming largely from lower royalties and licence fees.

7.2.4. Income

The deficit on the income account was estimated at US$586.3 million, an increase of US$18.0 million, relative to 2008 (see **Table 47**). This larger deficit largely reflected lower interest income inflows of US$41.4 million, as well as a US$25.1 million decline in net compensation to employees. However, a decline of US$48.4 million in outflows which was due to the US$102.9 million contraction in the imputed profit remittances of the direct investment companies partly offset this deterioration. The decline in the imputed profit remittances was attributed to the significant downturn in the mining sector in the review period.

7.2.5. Current Transfers

The surplus on the current transfers sub-account declined by 4.8 per cent to US$2 046.0 million in 2009, in contrast to the 5.4 per cent growth recorded in 2008 (see **Table 53**). This resulted from a decrease of 9.6 per cent in gross private inflows, compared to a 6.1 per cent increase in 2008. The deterioration reflected the impact of the global economic recession in the major developed economies, particularly in the USA, the major source country. Partly offsetting the impact of this decline was a 44.9 per cent increase in gross official inflows, due primarily to grants from the European Union for national security reform and debt reduction. In addition, gross private outflows fell by 22.9 per cent in 2009 when compared with a decline of 1.5 per cent in 2008.

Remittance companies increased their share as the major channel for private transfers in 2009, accounting for 85.2 per cent of total inflows, relative to 61.1 per cent in 2008, due to aggressive marketing strategies by the industry leaders. The share of inflows through the other remittance agencies, including commercial banks and postal agencies, declined to 14.8 per cent in 2009 from 38.9 per cent the previous year.[52]

7.2.6. Capital and Financial Account

There was a US$7.7 million decline in the surplus on the capital account to US$10.4 million in 2009. With regard to the financial account, there was a significant decline of US$1 874.4 million, largely reflecting a US$1 544.0 million fall in net private investment inflows (see **Table 47**). The contraction in net private investment reflected a normalization of private inflows following extraordinary flows in 2008 as well as the impact

[51] *Other Services* include communication, computer & information, other business and government services.

[52] This category consists of flows through institutions other than remittance companies that are classified as remittances by the Balance of Payments Manual (BPM5).

of weakened global credit conditions due to the international financial crisis. Net private and official investment inflows of US$857.9 million were insufficient to finance the deficit on the current account. As a result, there was a decline of US$43.6 million in the NIR. This was notwithstanding the receipt of SDR221.0 million (US$330.8 million) allocation from the International Monetary Fund (see **International Reserves**). Similarly, the official gross foreign assets declined to US$1 751.9 million as at end-2009, representing 13.4 weeks of projected goods and services imports (see **Table 54**).

Table 53

CURRENT TRANSFERS (US$MN)			
	2008[1/]	2009[2/]	Change
TOTAL RECEIPTS	**2 488.7**	**2 308.8**	**-179.8**
General Government	107.2	155.3	48.1
Private Sector	2 381.5	2 153.6	-227.9
TOTAL PAYMENTS	**339.0**	**262.8**	**-76.2**
General Government	6.5	6.5	0.0
Private Sector	332.5	256.3	-76.2
NET CURRENT TRANSFERS	**2 149.6**	**2 046.0**	**-103.6**

1/ Revised

2/ Estimates

Table 54

FOREIGN EXCHANGE RESERVES (US$MN) As at 31 December			
	2008[1/]	2009[2/]	Change
GROSS FOREIGN ASSETS	**1 795.4**	**1751.9**	**-43.6**
Bank of Jamaica	1 787.8	1 744.3	-43.6
Central Government	0.7	0.7	0.0
Other Official Institutions	6.9	6.9	0.0
GROSS FOREIGN LIABILITIES	**22.5**	**22.5**	**0.0**
NET INTERNATIONAL RESERVES	**1 772.9**	**1 729.4**	**-43.6**
Weeks of estimated imports of goods and services	9.4	13.4	4.0

1/ Revised

2/ Provisional

Net *Official Investment Inflows* declined by US$269.2 million in 2009, stemming from a reduction of US$129.6 million in gross official receipts and an increase in payments of US$139.6 million (see **Table 55**). The decline in gross official investment inflows reflected a reduction in the Government's activities on the international bond market in spite of the proceeds from project loans of US$367.9 million. Total outflows for the year amounted to US$936.8 million and reflected increased GOJ external debt payments, largely associated with the repayment of a Eurobond in the first quarter of the year. This was partially offset by lower outflows from the Bank.

Table 55

OFFICIAL INVESTMENT FLOWS (US$MN)			
	2008 1/	2009 2/	Change
GROSS OFFICIAL INFLOWS	**1 315.8**	**1 186.2**	**-129.6**
Project Loan	212.2	367.9	155.7
Other Assistance	1 103.6	818.3	-285.3
GROSS OFFICIAL OUTFLOWS	**797.2**	**936.8**	**139.6**
Government Direct	369.9	576.6	206.7
Bank of Jamaica	225.5	68.7	-156.9
Other Official	201.7	291.5	89.8
NET OFFICIAL INVESTMENTS	**518.6**	**249.4**	**-269.2**

1/ Revised

2/ Provisional

7.3. Foreign Exchange Management

7.3.1. Bank of Jamaica International Reserves

The net international reserves (NIR) of the BOJ were valued at US$1 729.4 million at end-2009, a decline of US$43.6 million compared to the stock at end-2008. The NIR declined in all quarters, except the September quarter, when the reserves were augmented by SDR221.0 million, the equivalent of US$330.8 million, under the General and Special Allocation Fund of the International Monetary Fund (IMF)[53]. During that quarter, the reserves increased by US$313.9 million (see **Table 56**).

During 2009, the gross foreign assets (GFA) declined by US$43.6 million to US$1,751.9 million when compared to end-2008. This contraction was the result of net foreign currency payments, largely debt amortization, on behalf of the Government (see **Table 56**). The Bank's foreign liabilities at end-2009 were US$22.5 million, despite the increase to US$74.0 million at the end of the September quarter.

Foreign Exchange Inflows and Outflows

Inflows

Foreign exchange inflows during 2009 totalled US$3 994.7 million, an increase of US$1 648.5 million when compared to 2008. Inflows were mainly from traditional sources, being purchases from the market and from the GOJ. Additionally, the reserves benefitted from a combination of General and Special Allocations of SDR221.0 million or US$330.8 million from the IMF during the September quarter (see **Table 58**).

Table 56

BANK OF JAMAICA
NET INTERNATIONAL RESERVES (NIR)
(end of period)
US$MN

	2008	2009				Annual Change
	Dec.	Mar.	June	Sept.	Dec.	($)
NIR	1 772.9	1 628.6	1 619.4	1 933.3	1 729.4	-43.6
Gross Foreign Assets	1 795.4	1 663.4	1 660.6	2 007.3	1 751.9	-43.6
Foreign Liabilities	22.5	34.9	41.2	74.0	22.5	0.0

[53]A General Allocation is designed to provide liquidity to the global economic system by augmenting member countries' foreign exchange reserves; while a Special Allocation is a 'one-time' distribution of SDRs to allow equitable participation in the SDR system by members of the IMF.

Table 57

BANK OF JAMAICA GROSS FOREIGN ASSETS AS AT 31 DECEMBER 2009 US$MN		
	Opening Gross Foreign Assets (GFA)	1 795.4
	Inflows	3,994.7
	Outflows	(4 052.6)
/1	Adjustment to GFA	14.4
	Closing Gross Foreign Assets	1 751.9

/1 - Unrealized gain on foreign currencies and other investments.

Purchases from the market totalled US$1 192.2 million, an increase of US$101.7 million compared to 2008. This increase emanated from the implementation of new surrender arrangements whereby each authorised trader committed to sell 10.0 per cent of clients' purchases daily to the Bank, in order to satisfy public sector entities' foreign currency demand. As of 04 February 2009, the new surrender arrangements were effected and facilitated the Bank of Jamaica's objective of re-distributing foreign currency resources during the year. Of total market purchases, US$677.4 million or approximately 57.0 per cent was sold to the BOJ during 2009 to effect the settlement of foreign currency obligations for several public sector entities.

The Bank purchased US$700.4 million from the GOJ during 2009, a decline of US$11.1 million when compared to 2008 (see **Table 58**). Of this amount, US$286.7 million or approximately 41.0 per cent was raised in the domestic capital market, including a loan of US$100.0 million from the Bank of Nova Scotia (BNS) during the March 2009 quarter.

In light of the global financial crisis, the GOJ's access to the capital markets was stymied and in this context, there were no Eurobond issues for the year. As a consequence, the GOJ acquired a total of US$247.1 million in loans from the World Bank, the Inter American Development Bank (IADB), and the Caribbean Development Bank (CDB) for budgetary financing. This reflected an increase of US$157.1 million compared to 2008.

Purchases from the bauxite sector also declined during 2009. These, comprising funds for local operations, production levy and royalty, amounted to US$74.2 million compared to US$169.5 million in 2008 (see **Table 58**). The decline in amounts purchased was largely evident in the production levy category, reflecting reduced shipment (see **Balance of Payments**). In contrast, purchases from funds converted to finance local operations increased when compared to 2008.

During 2009, financial institutions placed a total of US$869.8 million on deposit with the BOJ, an increase of US$726.2 million compared to 2008.[54] However, US$805.0 million, representing matured principal and interest (net) was repaid to those institutions by 31 December 2009.

Financial institutions repaid US$30.1 million under the Bank's USD Credit Facility (margin calls loans). This represented an increase of

[54]The BOJ began taking deposits from financial institutions during the December 2008 quarter.

US$18.1 million over the amount repaid in 2008. The higher repayments were supported by periods of relative stability in the global financial markets in 2009.

Table 58

INFLOWS OF FOREIGN EXCHANGE
US$MN

	Inflows		Change
	2008	2009	($)
Bauxite Receipts	**169.5**	**74.2**	**-95.3**
Market Purchases	**1 090.5**	**1 192.2**	**101.7**
Surrenders to BOJ			
- Authorised Dealers	355.9	213.6	-142.4
- Cambios	163.7	99.8	-63.8
- Public Sector Facility	0.0	677.4	677.4
- Other purchases (net)	570.9	201.4	-369.5
GOJ Foreign Currency Receipts	**711.5**	**700.4**	**-11.1**
- Eurobond	340.9	0.0	-340.9
- IDB	90.0	95.2	5.2
- CDB	0.0	47.5	47.5
- IBRD	0.0	104.4	104.4
- Local Debt Financing	55.8	286.7	230.9
- Divestment	63.7	0.0	-63.7
- Other GOJ	137.2	96.5	-40.6
of which Air Jamaica			*0.0*
of which Universal Access Fund	*50.4*	*8.7*	*-41.7*
- Grants	23.9	70.2	46.3
IMF SDR Allocation	**0.0**	**330.8**	**330.8**
Investment Income	**57.7**	**26.2**	**-31.5**
Other Receipts*	**37.4**	**27.9**	**-9.6**
Financial Institutions - Deposits	**143.6**	**869.8**	**726.2**
USD Credit Facility - Repo	**124.0**	**743.1**	**619.1**
USD Credit Facility - Repayment of Loan (Margin Calls)	**12.0**	**30.1**	**18.2**
Total Cash Inflows	**2 346.2**	**3 994.7**	**1 648.5**

** - includes net prudential reserve inflows and funds lodged to sundry GOJ accounts at the BOJ.*

Outflows

Foreign currency outflows increased by US$1 592.6 million to US$4 052.6 million in 2009 (see **Table 59**). In this regard, public foreign currency debt payments rose by US$332.0 million. Principal payments increased by US$361.7 million, US$264.5 million (€200.0 million) of which represented amortization in the March quarter. In contrast, interest payments declined by US$29.7 million during the year.

Foreign currency sales to the market through the intervention window were US$944.3 million, an increase of US$26.5 million compared to 2008. This increase was due to sale of US$655.9 million to public entities as sales through the intervention window declined by US$629.4 million.

Table 59

Outflows of Foreign Exchange
US$MN

	Outflows		
	2008	**2009**	**($)**
Public Debt	**1 059.1**	**1 391.1**	**332.0**
- Principal /1	481.9	843.6	361.7
- Interest	577.2	547.5	-29.7
Other GOJ Payments /1	119.7	140.4	20.6
Market Sales	917.8	944.3	**26.5**
- Intervention	917.8	288.4	-629.4
- Public Sector Facility	0.0	655.9	655.9
Other Payments*	46.0	30.0	-16.0
Financial Institutions - Repayment of Deposits	24.7	805.0	780.2
USD Credit Facility - Repo	123.9	741.9	618.0
USD Credit Facility Margin Calls	**168.8**	**0.0**	-168.8
Total Cash Outflows	**2 460.0**	**4 052.6**	**1 592.6**

**- Includes Central Bank payments for notes and coins.*

- /1 - Revised

7.3.2. Reserve Management

7.3.2.1. The Objectives of the Reserve Management Function

The underlying objective of the Bank's reserve management policy is to ensure capital maintenance, through investment in instruments defined by high liquidity and low market and credit risks, subject to the maximization of income within that environment. Specifically, the objectives seek

- to support and maintain confidence in monetary policy and the exchange rate policies;
- to provide the capacity to support the orderly functioning of the foreign exchange market;
- to employ strategies that will enable the Bank's balance sheet to absorb shocks brought on by crises in the domestic and international economies; and
- to enhance the confidence of investors in Jamaica Dollar assets so that Jamaica can meet its external obligations.

7.3.2.2. Reserve Management and Governance

Reserve management is implemented through a three-tiered governance structure comprised of The Board of Directors, The Executive Management Council and The Investment Committee. The Board of Directors, acting on the recommendation of the Executive Management Council, establishes the Bank's Investment Policy, which directs the investment decisions of the Reserve Management Department. The Investment Committee has oversight responsibility for the conversion of the investment policy into investment strategies, appropriate risk mitigation strategies and measurement, portfolio construction and performance. The Investment Committee forms the bridge between the Reserve Management Department and the Executive Management Council.

7.3.2.3. Risk Management

The Bank's foreign currency reserves are managed in accordance with general guidelines, strategies and risk limits that are grounded in the Investment Policy. In this context, conservative risk measures are adopted in order to prioritize the maintenance of capital and liquidity over income. The main risks in investing in foreign currency reserves are those related to interest rate, currency, credit and liquidity risks. Compliance with established constraints and risk limits are strictly monitored, the results of which are reported via the Investment Committee on a monthly basis. The Investment Committee is also provided with reports on positions, exposures and performance results at each meeting.

The Bank utilizes a number of brokerage houses to assist with the trading of securities. However, these transactions are done on a delivery versus payment (DVP) basis, thus insulating the Bank from the collapse of any of these entities. Foreign securities denominated in United States dollars are held in safe keeping under custodial agreements with the Federal Reserve Bank of New York.

7.3.2.4. The Foreign Investment Environment in 2009

The impact of the global financial crisis which began in 2007 continued to have a severe impact on the financial landscape in 2009, despite the concerted efforts of the major central banks to stabilize the system. In this regard, the low interest rates regime of 2008 continued into 2009, with United States Treasury bills offering negative yields at the beginning of the year.

Despite improved economic performance, the Federal Reserve, the European Central Bank, the Bank of England and the Bank of Canada retained their base lending rates throughout the year. Fears of the inflationary impact of stimulus packages initiated in the major economies of these central banks as well as the likely timing of action to increase interest rates and to address fiscal imbalances were reflected in market volatility, particularly in the fixed income markets. These fears and uncertainties were reflected in the differential between yields at the short and long end of the market; the differential between yields on the 2-year and 10-year U.S. Treasury securities reached a record high of 284 basis points.

With regard to the domestic foreign currency market, the demand for foreign currency, particularly during the first quarter of the year exceeded supply with the consequential pressure on the foreign exchange rate. The demand-supply imbalance was substantially reduced throughout the remainder of the year and was reflected in the stable exchange rate during the March-December 2009 period, relative to the corresponding period in 2008. This stability enabled the Bank to reduce direct sales to the market to US$288.4 million in 2009 from US$917.8 million in 2008.

7.3.2.5. Investment Strategy Employed

The foreign investment strategy remained largely unchanged during the year, focusing on high quality money and capital markets investments. The unprecedented low levels of interest rates heavily influenced the decision to retain an overweight position in the short-term category of investments. This weighting was applied throughout the period, effectively shortening the duration of the Fund and reducing the Bank's exposure to interest rate risk over the medium and long term. The asset allocation mix was determined by precise instrument selection to achieve an optimal ratio of risk and return.

7.3.2.6. Portfolio Distribution

At 31 December 2009, the gross foreign assets of the Bank was US$1 751.9 million. Of this amount, US$332.4 million represented the equivalent of SDR221.0 million allocated by the International Monetary Fund during August and September.[55]

Within money market investment class, the distribution of other investments remained heavily skewed towards the Federal Reserve Bank and the Bank for International Settlements as the Central Bank continued its mandate to mitigate counterparty risk. The portfolio retained its bias towards US Dollar dominated investments

[55] The US dollar equivalent of SDR221.0 million reflects exchange rate valuation as at end-December 2009.

throughout the year with little change in the class of assets in which the reserves were invested (see **Table 60**).

7.3.2.7. Portfolio Performance

Foreign investment income for 2009 was US$27.1 million, US$40.7 million less than that earned in 2008 (see **Table 61**). Two factors that were responsible for the decrease in earnings were lower interest rates and the lower stock of reserves. In this regard, the portfolio earned interest at an average rate of 1.67 per cent in 2009 compared to 3.32 per cent in 2008. Additionally, the average size of the portfolio was US$1 623.0 million in 2009 compared to US$2 041.0 million in 2008. Income from bond holdings, which contributed 80.2 per cent of total income for the period, was driven mainly by investments in securities issued by Supranational Authorities and European Agencies.

Table 60

DISTRIBUTION OF FOREIGN ASSETS AT 31 DECEMBER

Asset Type	2008		2009	
	US$MN	%	US$MN	%
Money Market Investments	1 096.6	61.1	722.2	41.2
Bond Holdings	565.2	31.5	563.4	32.2
External Fund	133.6	7.4	135.5	7.7
Total Funds Invested	**1 795.4**	**100.0**	**1 421.1**	**81.1**
Allocation of Special Drawing Rights	-	0.0	330.8	18.9
TOTAL	**1 795.4**	**100.0**	**1 751.9**	**100.0**

Table 61

FOREIGN INVESTMENT INCOME FOR THE YEAR ENDED 31 DECEMBER

	2008		2009	
Assets	US$MN	% of Earnings	US$MN	%
Money Market Investments	31.9	47.1	3.2	11.8
Bond Holdings	31.8	46.9	21.7	80.2
External Fund	4.1	6.0	2.2	8.0
Total	**67.8**	**100.0**	**27.1**	**100.0**
Average Income Earning Assets (US$)	2 041.0		1 623.0	
Rate of Return (%)	3.32%		1.67%	

7.3.3. The Foreign Exchange Market

During 2009, the foreign exchange market was generally characterized by reduced US dollar supply, consequent on the adverse impact of the global economic recession. The reduced foreign currency inflows reflected declining revenues from the country's key sources of foreign exchange, particularly bauxite, tourism, remittances.[56] In this regard, the purchase of foreign exchange from net earners declined to a daily average of US$24.0 million in 2009 compared to US$31.5 million in 2008 (see **Table 62**).

In response to the fallout in the country's earnings, the Jamaica Dollar vis-à-vis the US dollar depreciated by 10.2 per cent in 2009, relative to the 12.4 per cent depreciation in 2008. The depreciation in the Jamaica Dollar against the Canadian dollar was 22.5 per cent in 2009, relative to an appreciation of 8.9 per cent in 2008. There was a depreciation of 18.6 per cent against the Great Britain Pound in 2009, relative to an appreciation of 20.1 per cent in 2008.

The sharpest depreciation in the Jamaica Dollar was experienced in the March 2009 quarter, as the excess foreign currency demand which characterized the December 2008 quarter continued into the first two months of 2009. For the March 2009 quarter, the weighted average selling rate (WASR) depreciated by 9.4 per cent, with the currency depreciating by 8.9 per cent during the months of January and February. This was influenced by tightened US-dollar liquidity following significant USD outflows from the system in the December 2008 quarter, due to payment of overseas credit obligations. In addition, supply conditions were exacerbated by a reduction in earner supply in the March 2009 quarter, with earner inflows averaging US$23.5 million daily compared to a daily average of US$28.7 million and US$34.1 million in the December 2008 and March 2008 quarters, respectively (see **Table 62**).

In order to manage excess demand for foreign exchange during the year, BOJ implemented a number of initiatives and continued operations of measures from the previous year. The measures contributed to the slowdown in the rate of depreciation of the Jamaica Dollar vis-à-vis US dollar during the ten-month period commencing in March. Consequently, the depreciation in the Jamaica Dollar slowed to 0.29 per cent, 0.01 per cent and 0.58 per cent for the June, September and December 2009 quarters, respectively.

In addition, the BOJ continued its policy to augment the foreign exchange market supply. It was against this background that the BOJ sold a total of US$264.6 million to the market during 2009, with approximately 60 per cent of these sales effected during the first half of the year. For 2008, gross sales amounted to US$870.3 million, with approximately 40 per cent of this amount effected during the first half of 2008.

The weakened global economy also engendered conditions that effectively slowed the demand for

[56] Remittances reflected a decline of 20.28 per cent for the January-to-November period relative to the corresponding period in 2008, while Tourism earnings declined by 2.03 per cent for the January-to-September period relative to the corresponding period in 2008.

foreign currency. The end-user demand remained generally subdued during 2009, due to the slowdown in the domestic economy as well as the moderation in oil prices, relative to the previous year. In this regard, daily foreign currency sales to end-users averaged US$23.6 million for 2009, declining relative to average sales of US$31.4 million for 2008 (see **Table 62**). There was also tempered demand to finance portfolio investments in USD-denominated assets, as the US dollar weakened against its major counterparts. In this regard, the US dollar depreciated by 6.2 per cent vis-à-vis its major trading partners during 2009 in contrast to an appreciation of 7.7 per cent in the previous year.[57] Additionally, GOJ USD global bonds attracted limited interest from domestic investors, particularly during the second half of the year, as the international rating agencies downgraded Jamaica's sovereign debt consequent on the fiscal challenges that became evident by mid-year. The average price appreciation on the GOJ USD globals slowed to 3.7 per cent in the September quarter from 10.3 per cent in the June quarter, while prices declined by an average of 8.5 per cent in the December quarter.

Total purchases and sales reported by authorized foreign currency traders during 2009 amounted to US$7 995.8 million and US$7 938.0 million, respectively. This compares to US$12 813.2 million and US$12 811.7 million, respectively, in 2008 (see **Table 63**). The sharp reduction in volumes reflected dealers' efforts to exercise restraint in their bid and offer rates. As a consequence, the turnover of foreign currency within the interdealer segment of the market declined, with interdealer trades accounting for 21.3 per cent of total sales in 2009, relative to 32.1 per cent of the total sales in 2008. During 2009, authorized dealers experienced a decline of 4.3 percentage points in market share, accounting for 64.4 per cent of total foreign exchange sales, with cambios market share increasing to 35.6 per cent. The average trading spread by foreign currency dealers increased to 0.47 per cent in 2009, relative to 0.41 per cent in 2008.

[57]The US dollar weakened significantly against its major counterparts, particularly in the June and September quarters, depreciating by **7.12** per cent and **4.56** per cent, respectively, over these two periods. Source: *US Federal Reserve Nominal Major Currencies Dollar Index*.

Table 62

Daily Average Trading Volumes (US$MN)						
2009						
	Purchases From			Sales to		
Quarter	**Earners**	**Inter-Dealer**	**Total**	**End-Users**	**Inter-Dealer**	**Total**
March	23.5	7.8	31.3	23.7	7.9	31.6
June	24.3	5.3	29.5	23.8	5.3	29.1
September	24.0	6.7	30.7	23.9	6.7	30.6
December	24.0	6.7	30.7	23.2	6.8	29.9
Average per diem	**24.0**	**6.6**	**30.6**	**23.6**	**6.7**	**30.3**
2008						
	Purchases From			Sales to		
Quarter	**Earners**	**Inter-Dealer**	**Total**	**End-Users**	**Inter-Dealer**	**Total**
March	34.1	15.7	49.9	34.5	15.8	50.4
June	31.7	16.2	47.9	32.5	16.2	48.7
September	31.4	17.4	48.8	30.5	17.6	48.2
December	28.7	15.8	44.5	27.9	16.0	43.9
Average per diem	**31.5**	**16.3**	**47.8**	**31.4**	**16.4**	**47.8**

Table 63

Purchases and Sales of Foreign Exchange (US$MN)				
Quarter	**Purchases**		**Sales**	
	2008	**2009**	**2008**	**2009**
March	3 127.5	2 082.0	3 157.0	2 103.7
June	3 209.6	1 840.7	3 258.6	1 814.9
September	3 278.8	1 996.2	3 239.1	1 990.1
December	3 197.3	2 076.9	3 157.0	2 029.4
TOTAL	**12 813.2**	**7 995.8**	**12 811.7**	**7 938.0**

Includes BOJ Intervention

8. Production and Prices

8.1. Production

8.1.1. Overview

The Jamaican economy declined by 2.7 per cent in 2009, following a contraction of 0.9 per cent in 2008 (see **Figure 27**). The decline emanated from weak external and domestic demand, coupled with heightened uncertainty regarding economic prospects. External demand was severely constrained by the global financial crisis, although there were signs that the global financial markets had started to stabilize in the latter half of 2009. Weak domestic demand emanated from falling real income, increased domestic unemployment, slower remittance inflows and tightening credit conditions.

Both the tradable and non-tradable industries recorded declines during the year. In this regard, **Mining & Quarrying**, **Manufacture**, **Transport, Storage & Communication** and **Construction** were the main industries that contracted. Moderating the impact of the contraction in these industries on overall GDP was robust growth in **Agriculture, Forestry & Fishing** and small increases in **Electricity & Water**, **Hotels & Restaurants** and **Finance & Insurance Services** (see **Table 64**).

Chart 27

GDP Growth: 2000 - 2009

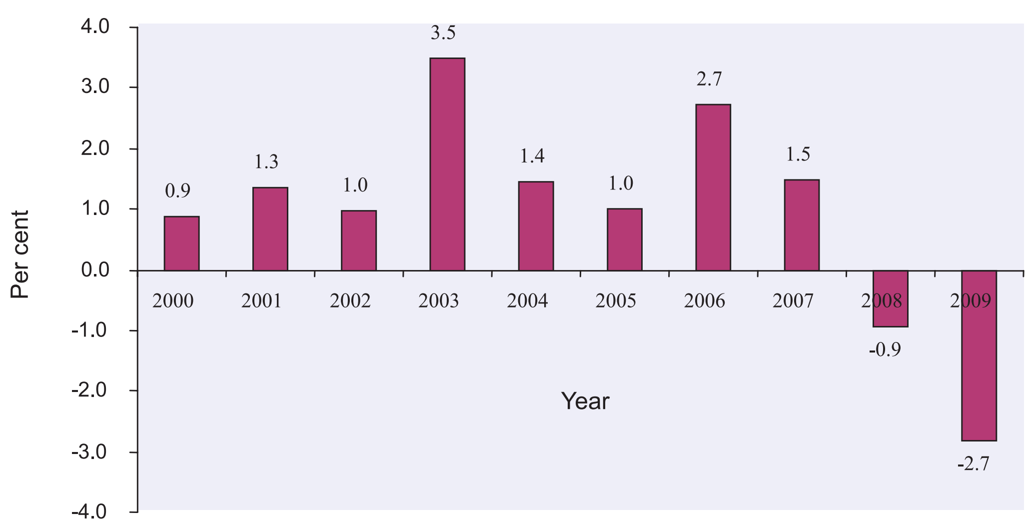


Table 64

INDUSTRIAL CONTRIBUTION TO GDP GROWTH (%)		
Industries	2009	Contribution
1. GOODS	-8.5	85.8
Agriculture, Forestry & Fishing	12.1	-26.7
Mining & Quarrying	-50.2	75.2
Manufacture	-5.0	17.7
Construction	-4.6	13.3
2. SERVICES	-0.6	17.3
Electricity & Water	2.2	-2.7
Wholesale and Retail Trade, Repairs & Installation	-1.2	8.4
Hotels & Restaurants	1.4	-2.6
Transport, Storage & Communication	-4.4	19.4
Financing & Insurance Services	0.8	-3.4
Real Estates, Renting & Business Activities	0.4	-1.5
Producers of Government Services	-0.2	1.0
Other Services	0.3	-0.6
3. FINANCIAL INTERMEDIIATION SERVICES INDIRECTLY MEASURED	1.3	-2.5
TOTAL VALUE ADDED	-2.7	100.0

Source: STATIN

Sectoral Developments

Mining & Quarrying declined consistently throughout 2009, registering an annual contraction of 50.2 per cent, relative to the decline of 2.5 per cent in the previous year. The industry was severely affected by the global financial crisis, which resulted in, among other things, a curtailment in international demand for commodities, in particular aluminium. In this context, two of three alumina companies operating in Jamaica were closed.[58] These plants represented approximately 68.0 per cent of the alumina industry's capacity. In addition, daily operations at the sole bauxite plant were reduced. Against this background, total bauxite and alumina production declined significantly by 46.8 per cent and 55.6 per cent, respectively, in 2009, compared to marginal growth of 0.7 per cent and 1.3 per cent in 2008. The outturn in 2009 reflected a sharp contraction in the capacity utilisation rate for the alumina industry to 39.0 per cent from 87.7 per cent in 2008. Similarly, for bauxite, the capacity utilisation rate fell to 71.1 per cent from 88.8 per cent in the previous year. This was in comparison to average annual capacity utilisation rates of 91.3 per cent and 86.5 per cent for alumina and bauxite, respectively, between 2004 and 2008.

Manufacture registered a decline of 5.0 per cent in 2009. This was the second consecutive year of contraction and was sharper than the average contraction of 1.2 per cent recorded over the previous five years. The outturn was attributed to reductions in both *Food & Beverages* and *Other*

[58]The plants were closed in April and May 2009, respectively.

Manufacturing. The industry continued to be impacted by weak external demand associated with the global economic depression, as well as lower domestic demand, due to reduced disposable income. The weak performance of the industry was also partly attributed to the uncompetitive nature of some sub-industries.

The performance of *Food & Beverages*, mainly reflected declines in food processing (excluding sugar), alcoholic beverages and sugar production, the impact of which was partly offset by a marginal growth in the production of non-alcoholic beverages. The deterioration in food processing (excluding sugar) stemmed primarily from reductions in animal feeds, poultry meat and edible oils & fats. Expansions in other commodities partly offset the decline in food processing (see **Table 65**). Reduced demand from households was mainly responsible for the decline in poultry meat and edible fats. The decline in alcoholic beverages was in a context of reduced domestic demand arising from higher prices due to the increase in the rate of the Special Consumption Tax imposed by the Government in April 2009. The reduction in sugar was attributed to a confluence of factors, which included the late start of reaping activities, persistent rainfall during the month of April, mechanical stoppages and industrial disputes at one sugar factory as well as the temporary closure of two other major sugar factories.

The fallout in *Other Manufacturing* was attributed mainly to decreases in *Refined Petroleum Products, Chemical Products* and *Metal Products*. Lower output of petroleum products reflected reduced activity at the sole refinery due in part to disruptions stemming from a shipping accident at its pier in June.[59] The contraction in chemical products, in part, reflected the decline in aluminium sulphate, stemming from weak demand from the alumina companies, lower output of detergent, attributed to the closure of a plant as well as reduced manufacture of sulphuric acid, arising from lower demand from overseas customers.

Table 65

Selected Food Processing Items

Item	Production ('000 tonnes) 2008	2009	% Change
Poultry Meat	106.3	103.9	-2.3
Edible Oils	20.6	18.6	-9.8
Edible Fats	7.9	6.4	-19.5
Cornmeal	9.4	10.2	8.1
Condensed Milk	12.9	14.9	15.4
Flour	132.4	136.8	3.3
Animal Feeds	390.9	390.2	-0.2
Sugar	140.6	130.5	-7.2

Source: Planning Institute of Jamaica

In the context of continued declines in private sector investment projects, residential construction and public sector capital projects, **Construction** contracted by 4.6 per cent in 2009, following on the fallout of 6.7 per cent in 2008. This contraction in **Construction** was in comparison to an annual average growth of 2.4 per cent over the previous five years. Private sector investment continued to be adversely affected by the global financial crisis and weak domestic demand.

[59] Full repairs to the pier are expected to be completed by the end of 2010.

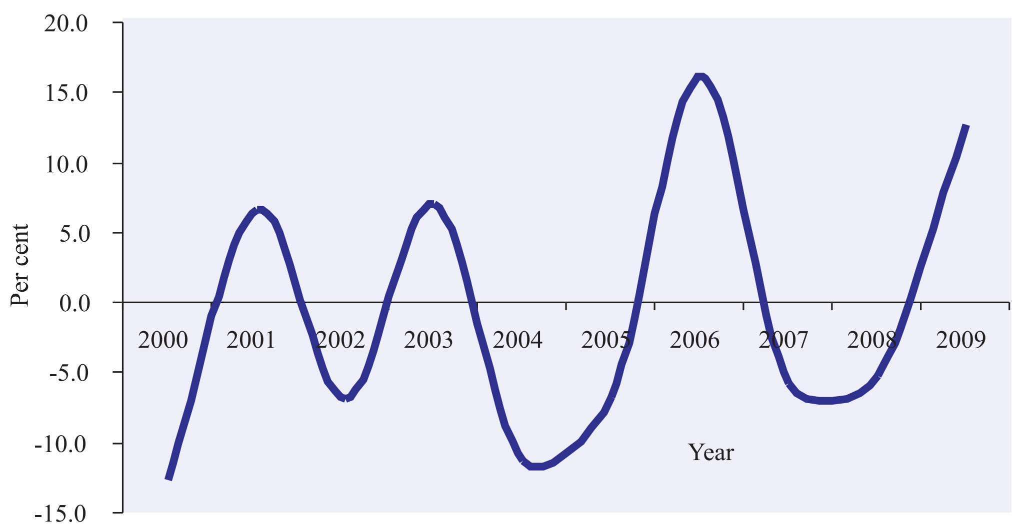
In addition, public sector capital projects were affected by the Government's fiscal constraints. The performance of the industry reflected a decline of 9.4 per cent in cement sales in the year. Lower residential construction was indicated by declines of 24.2 per cent and 18.8 per cent in the National Housing Trust housing completions and starts, respectively, for 2009.

After two consecutive years of declines due to adverse weather, **Agriculture, Forestry & Fishing** grew significantly by 12.1 per cent (see **Chart 28**). The industry expanded consistently throughout the year, registering the strongest growth of 20.1 per cent in the December quarter. Growth occurred in both *Domestic* and *Traditional Export Agriculture*. Activity within the industry reflected continued recovery over 2008, facilitated by relatively good weather conditions as well as coordinated growth initiatives by the Ministry of Agriculture.[60] These initiatives were implemented under the Production and Productivity Programme, which included, *inter alia*, the development of greenhouse farms, the provision of machinery and lower cost fertilizer to assist farmers in land cultivation and crop development. The programme was established in October 2008 with an aim to transform the industry through the restructuring of research and development, investment and marketing as well as advancing technical competencies and practices. These initiatives resulted in an improvement in productivity as indicated by the output per hectare ratio of 13.8 for 2009 when compared to 13.1 in 2008 and an average ratio of 13.0 over the last five years (see **Chart 29**).

Given the above, all categories of domestic crop production, with the exception of sorrel grew significantly in 2009 (**see Table 66**).

Chart 28

Agriculture, Forestry & Fishing Value Added Growth: (2000 - 2009) (Annual % Change)



[60]These initiatives were geared towards an improved and more competitive and productive agricultural industry.

Chart 29

Agriculture:, Output per Hectares ('000 tonnes) (2000 - 2009)

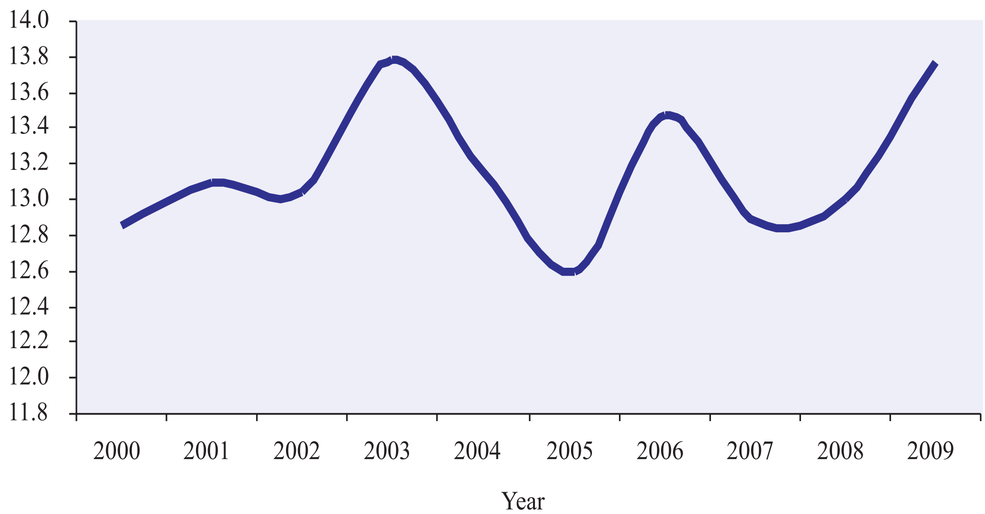


Table 66

SELECTED DOMESTIC CROP PRODUCTION

Crop Group	Production ('000 tonnes) 2008	2009	% Change
Yams	101.9	124.5	22.2
Vegetables	144.6	173.6	20.1
Other tubers	31.9	34.8	9.1
Fruits	42.3	46.8	10.7
Condiments	26.3	34.3	30.6
Plantains	15.0	24.6	63.6
Potatoes	30.7	42.9	39.7
Legumes	4.6	4.8	3.9
Cereals	1.9	2.4	24.4
Total	**400.1**	**489.5**	**22.3**

Source: Ministry of Agriculture

Table 67

SELECTED AGRICULTURAL EXPORTS

Crop	2008	2009	% Change
	Exports ('000 tonnes)		
Sugar	138.2	120.2	-13.1
Citrus	5.0	7.7	52.2
Cocoa	0.4	0.8	86.0
Coffee	1.2	1.4	14.4
Pimento	0.71	0.73	2.2
	Production (000' tonnes)		
Sugar cane	164.3	140.0	-15.0

Sources: Bank of Jamaica Estimates & Sugar Corporation of Jamaica

Traditional Export Agriculture improved by 9.3 per cent in 2009, reflecting robust recovery in citrus and cocoa production. Both industries were devastated by Hurricane Dean in 2007, while citrus was further affected by the "Citrus Huanglongbing' disease.[61] With improved weather conditions and farming practices, production rebounded in 2009 (**see Table 67**). On the other hand, there was a decline in sugar cane milled during the year. This was attributed to the late start of reaping activities as well as the temporary closure of two major sugar factories that were slated for divestment within the year.

[61] It is better known as citrus greening disease and is caused by a bacterium that infects only the food conducting tissues of the tree or phloem vessels. The disease destroys the trees and has no cure.

Notwithstanding the significant growth in **Agriculture, Forestry & Fishing**, the performance of the industry was tempered by a number of factors that had an adverse impact on production. Chief among these was drought conditions in some parishes, which hampered land preparation and resulted in lower yields in some crops. The high cost and scarcity of some planting materials and high levels of pest and disease infestation due to the dry conditions as well as the high cost of fertilizer and farm labour also affected production.

Expansion in **Electricity & Water** was marginally above the average growth of 1.7 per cent observed over the last five years. This growth was primarily facilitated by the re-commissioning of 10 megawatts of electricity generating capacity at the Bogue Power Station in October. In addition, there was normalization of electricity generation following disruptions caused by the passage of Tropical Storm Gustav in 2008. In this context, total electricity generation and sales grew by 2.1 per cent and 3.8 per cent, respectively. Water production also improved by 2.6 per cent, reflecting rehabilitation and development activities by the National Water Commission.

Transport, Storage & Communication declined by 4.4 per cent in the review period, below the previous five year annual average growth of 1.6 per cent. The performance of the industry reflected primarily the impact of the weak external demand on shipping, due to the global economic crisis, as well as the contraction in services by the national airline, Air Jamaica. The industry's value-added contracted consistently throughout the year, attributed mainly to falling economic activity in water and air transport. The reduction in water transport was indicated by a decline of 5.3 per cent in the number of ships calling at Jamaican ports as well as a contraction of 28.1 per cent in total domestic cargo movements. The fallout in ship calls was primarily attributed to the trend decline in world trade since the December 2008 quarter. Air transport was negatively influenced by the restructuring of Air Jamaica where more than six of its regular routes were terminated during the year.[62] In addition, total air cargo movement fell by 26.1 per cent in 2009, compared to a marginal growth of 0.4 per cent in 2008.

Hotel & Restaurants expanded by 1.4 per cent for 2009, compared to an annual growth of 4.3 per cent over the last five years. The lower than average growth reflected weak world demand for travel, consequent on reduced income attributed to the global downturn. The out-turn also reflected a contraction in domestic demand for restaurant services due also to lower real disposable income. Notwithstanding, the industry benefited from the impact of the diversion of visitors to Jamaica from Mexico because of the outbreak of the H1N1 virus, expanded hotel capacity as well as strategic advertising by the Jamaica Tourist Board and industry players.[63] In addition, there was some amount of normalization in the industry following disruption caused by Tropical Storm Gustav in

[62]Amongst these were its flights to Atlanta, Miami, Los Angeles, Barbados, Grenada, Grand Cayman, Havana, Orlando, and Chicago.

[63]In an attempt to fill rooms, hoteliers offered significant discounts during the year.

2008. Against this background, total stopover arrivals increased by 3.6 per cent, compared to a growth of 3.9 per cent in the previous year. This was below the average annual growth of 5.6 per cent since 2004. In contrast, cruise ship arrivals declined by 15.3 per cent, relative to the previous year, reflecting a shift in the itinerary of selected cruise lines away from the Caribbean.

8.2. Prices

8.2.1. Overview

Headline inflation fell to 10.2 per cent at the end of 2009, relative to 16.8 per cent recorded at the end of 2008 (see **Chart 30).** The out-turn in 2009 reflected a slower rate of increase in the price of imported food and buoyant agriculture supply. The measures of core or underlying inflation also recorded significant declines in 2009. The rate of change in the trimmed mean index and the Consumer Price Index excluding food and fuel (CPIFF) fell to 5.3 per cent and 9.9 per cent, respectively, in 2009, relative to 10.3 per cent and 12.6 per cent in 2008.

The more significant price increases were recorded in *Other Urban Centres (OUC)* and the *Greater Kingston Metropolitan Area (GKMA)*, which grew by 11.6 per cent and 11.0 per cent respectively, relative to a 9.1 per cent increase recorded in *Rural Areas (RA)*. This distribution primarily reflected the pattern of increases of **Food & Non-Alcoholic Beverages** division across all regions. For the calendar year, **Food & Non-Alcoholic Beverages** increased by 10.4 per cent, 9.1 per cent and 6.5 per cent in OUC, GKMA and RA, respectively.

Chart 30

Jamaica: Headline Inflation
(2007 - 2009)

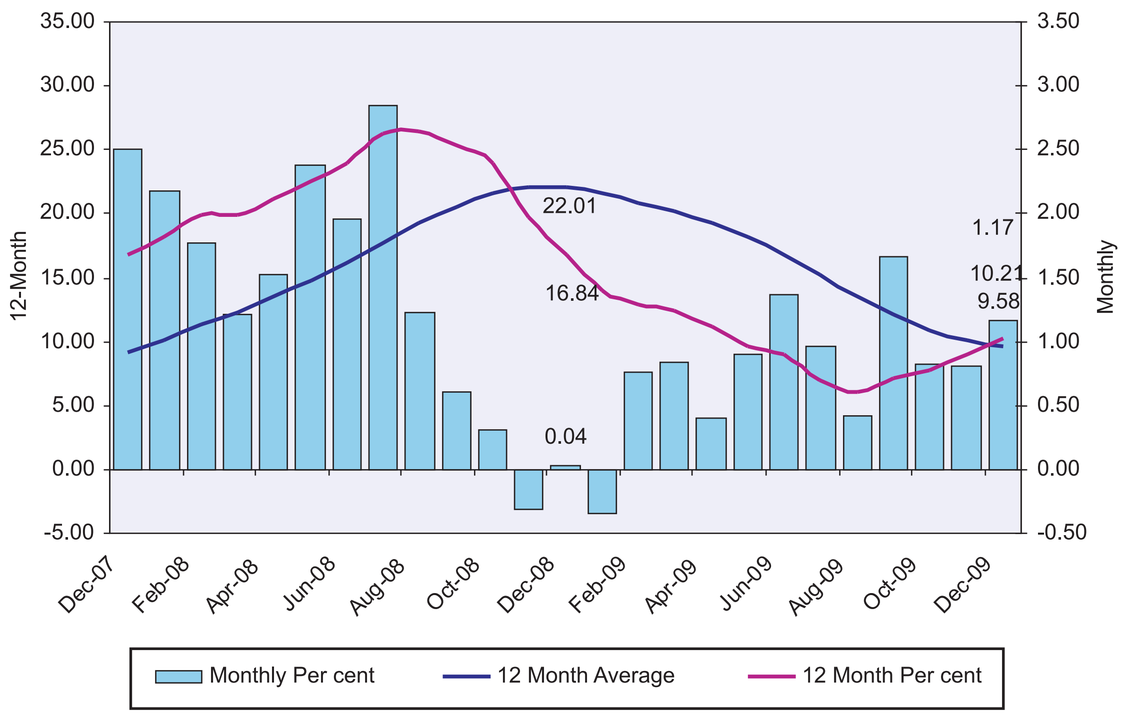
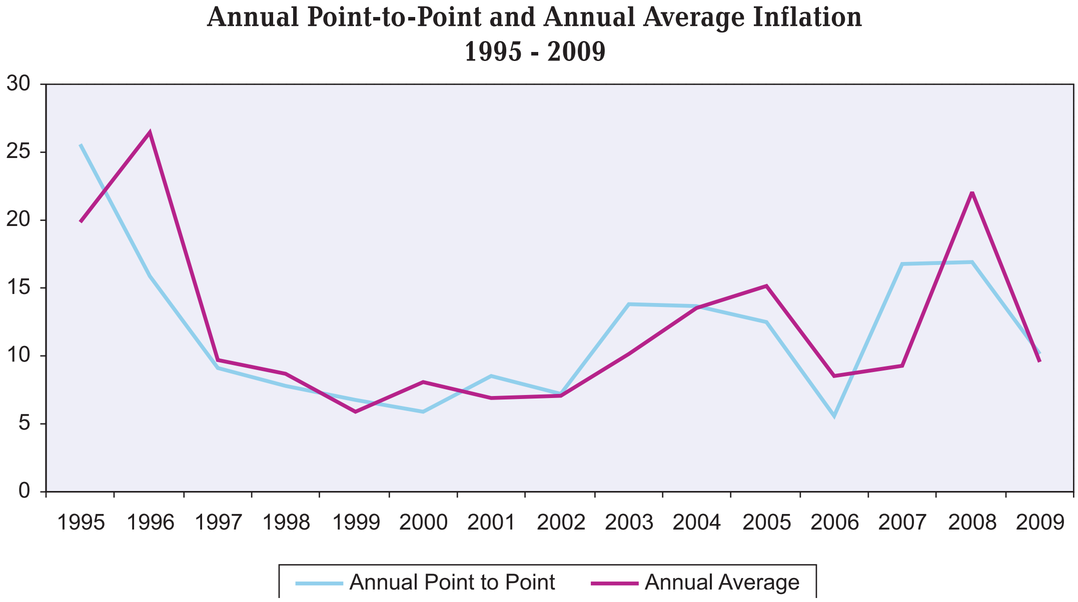


Chart 31



Inflation in 2009 mainly reflected the impact of higher energy costs associated with the rise in crude oil prices, particularly in the second half of the year. This contributed to notable increases in services and processed foods. In April 2009, the Government of Jamaica (GOJ) introduced enhanced revenue measures which also had a significant impact on non-food inflation, in particular, fuel prices. Movements in some imported food prices, most notably sugar, in the second half of the year, also contributed to domestic price impulses during 2009. Improved productivity in *Agriculture* sector coupled with reduced domestic incomes, due to the recession, resulted in some countervailing forces for domestic food inflation. The impact of improved agriculture supply was most evident in the first six months of the year. The inflationary pressures were also tempered by the stability in the exchange rate, notwithstanding the pass-through of the sharp depreciation in the latter part of 2008 and the first two months of 2009. In this context, inflation was lower in the first six months of 2009 at 4.0 per cent, compared to the 5.9 per cent, in the second half of the year.

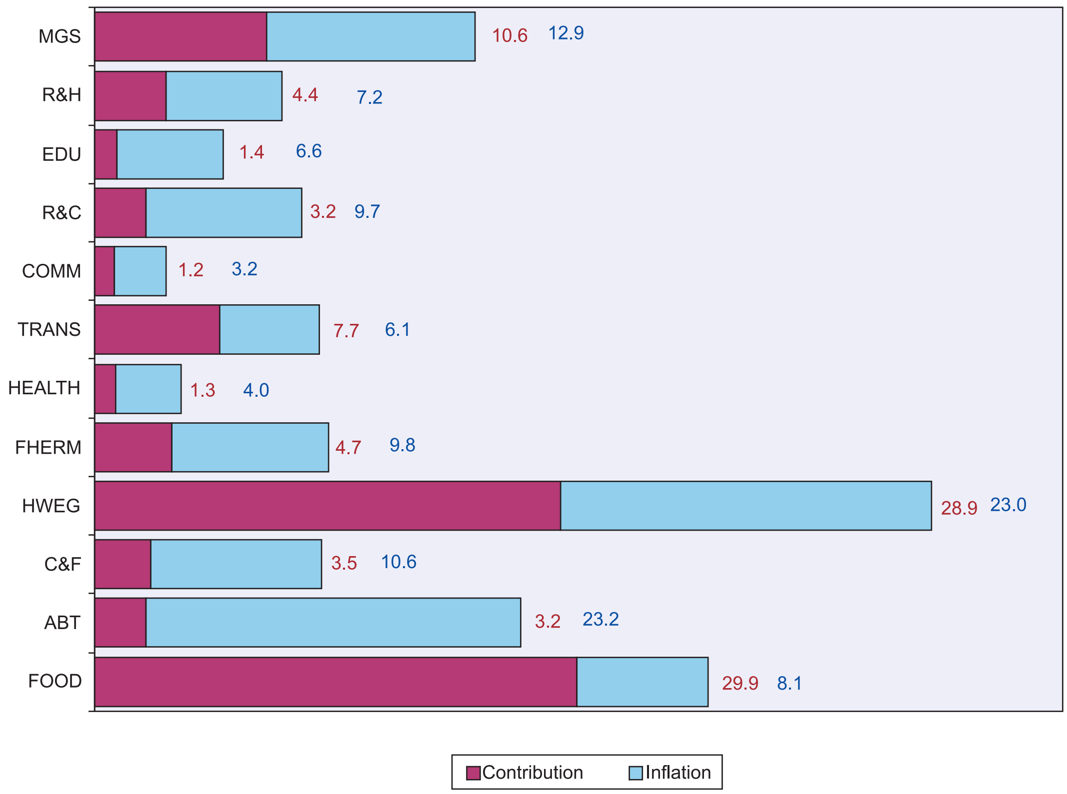
8.2.2. Component Contribution to Inflation

The 10.2 per cent increase in the Consumer Price Index (CPI) in 2009 was mainly reflected in increases in **Food & Non-Alcoholic Beverages; Housing, Water, Electricity, Gas & Other Fuels; Miscellaneous Goods & Services** and **Transport**. These divisions increased by 8.1 per cent, 23.0 per cent, 12.9 per cent and 6.1 per cent, respectively, and together accounted for 77.1 per cent of the overall inflation rate (see **Chart 32**).

The increase in **Food & Non-Alcoholic Beverages** mainly reflected changes in *Meat*, *Fish & Seafood* and *Bread & Cereals*. These divisions expanded by 10.1 per cent, 13.7 per cent and 6.8 per cent and contributed 7.6 per cent, 7.2 per cent, and 4.1 per cent, respectively, to the overall inflation.

Chart 32

Percentage Contribution and Inflation by Division



Electricity, Gas & Other Fuels, Rentals for Housing and *Water Supply & Miscellaneous Services Related to Dwelling* were the main drivers in **Housing, Water, Electricity, Gas & Other Fuels**. The most significant was *Electricity, Gas & Other Fuels*, which increased by 26.2 per cent and accounted for 18.4 per cent of the overall inflation. **Miscellaneous Goods & Services** mainly reflected movements in *Personal Care, Insurance* and *Other Services*, while **Transport**, which accounted for 7.7 per cent of overall inflation, largely reflected the impact of increased petrol prices.

8.2.3. Factors Influencing Inflation

Exchange Rate Pass-Through and Imported Inflation

Although the exchange rate was notably stable for most of the calendar year, the movements in the latter part of 2008 and the first quarter of 2009 had some impact on imported inflation during 2009.[64] The weighted average exchange rate depreciated by 9.7 per cent in the December 2008 quarter, following a 1.1 per cent slippage in the September 2008 quarter. The instability, which was the direct result of the global financial crisis, continued into the March quarter with a further

[64]The exchange rate depreciated by 11.56 per cent in US dollar terms for 2009. However, most of this depreciation occurred in the March quarter, in particular January and February.

depreciation of 9.4 per cent in the exchange rate. This depreciation provided an added impact on the cost of imported intermediate and final goods.

Average import prices, as reflected in the Bank's Import Price Index (IPI), increased by 25.7 per cent in 2009 in contrast to a decline of 27.7 per cent in 2008. This increase largely reflected a twelve-month point-to-point expansion of approximately 80.0 per cent in the benchmark West Texas Intermediate crude oil price. Most of the increase occurred during the June 2009 quarter (45 per cent) and had a lagged impact on domestic prices in the subsequent quarters. The prices of imported consumer goods and raw material foods reflected increases of 6.8 per cent and 7.7 per cent, respectively, in 2009, following declines in 2008.

The impact of imported inflation was manifested mainly in **Housing Water Electricity Gas & Other Fuels**, **Transport** and non-agriculture food groups such as *Meat* and *Fish & Seafood*. Second round effects were reflected in the prices of services and durables, particularly in the September and December quarters.

Administered Prices

The administered price adjustments in 2009 were mainly associated with the Government revenue measures. The most significant adjustment, in terms of the inflation impact, was a 41.7 per cent increase in the SCT on tobacco products that was effected in May 2009. There were also adjustments in the SCT on alcoholic beverages. These adjustments largely explain the 23.2 per cent increase in **Alcoholic Beverages & Tobacco**, which accounted for 3.2 per cent of the annual inflation. In addition, the SCT on petrol was raised by approximately 16.0 per cent. However, final petrol prices changed by a small amount as retailers absorbed some of the impact, given the weak demand. Other administrative price changes included the annual adjustment of 10 per cent in the minimum wage threshold in May. The impact of this was reflected in **Furnishings, Household Equipment & Routine Maintenance**.

Supply Factors

With the exception of yam, the supply of starches as well as short-term vegetable crops was above seasonal levels for most of 2009 and was sufficient to meet demand (see **Charts 33-37**). This was in a context where initiatives by the Ministry of Agriculture to boost output and increase productivity resulted in improved crop yields (see **Production**). Anecdotal evidence suggests that participation rates in the sector also increased, following the fallout in the mining and sugar industries as individuals turned to agriculture as a means of supplementing lost incomes. Against this background, *Vegetables* declined by 2.1 per cent in 2009, relative to 38.4 per cent in 2008, while the average inflation for starches moderated to 5.3 per cent in 2009 from 10.2 per cent in 2008. In this context, *Vegetables & Starchy Foods* had a negligible contribution to inflation for the year. This outturn was despite the inflationary impulses of short-term crops such as tomato, in the December 2009 quarter, which could have been the result of increased demand from processors and exporters.

Chart 33

Tonnes of Yellow Yam

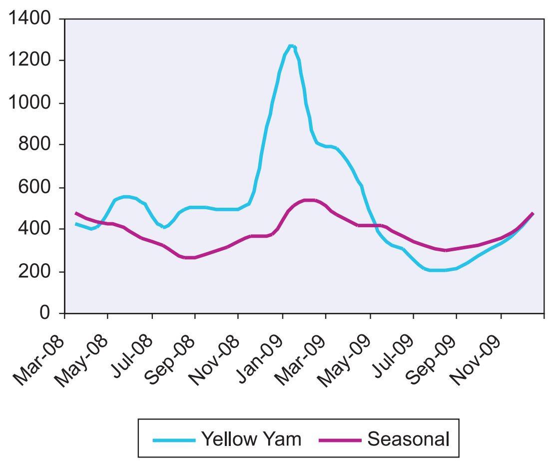


Chart 34

Tonnes of Irish Potato

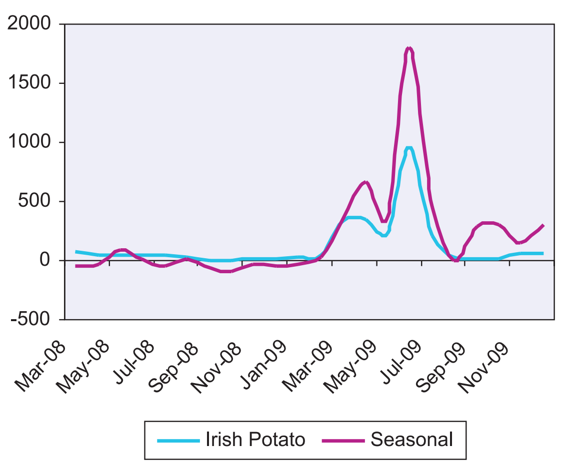


Chart 35

Tonnes of Tomato

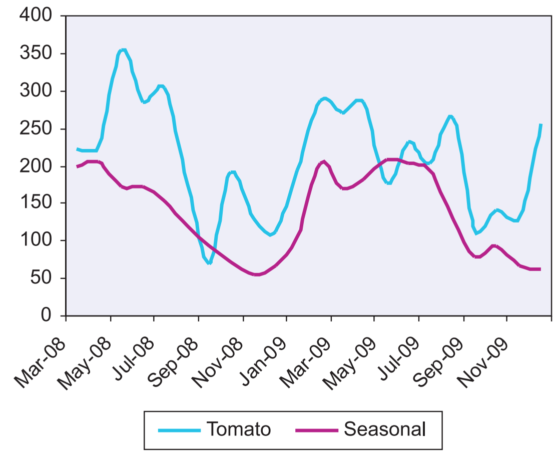


Chart 36

Tonnes of Cabbage

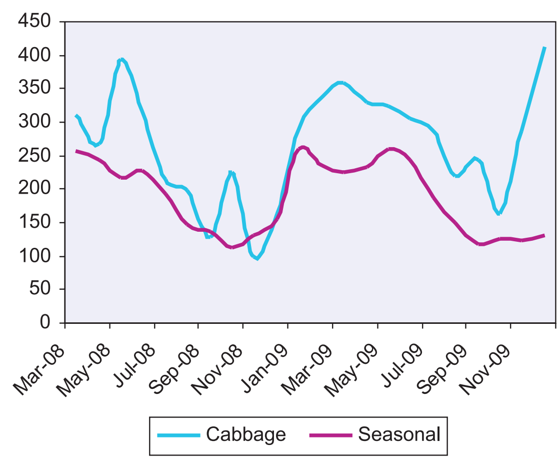
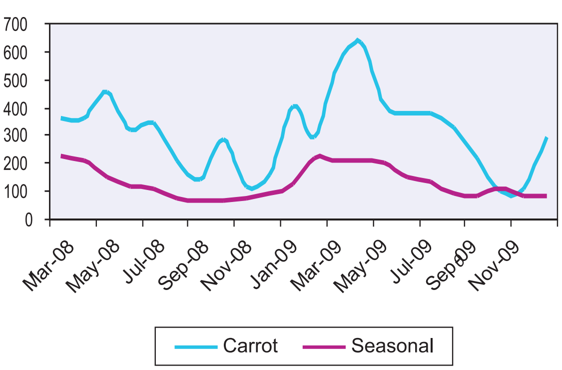


Chart 37

Tonnes of Carrot



Demand Conditions

Short-term indicators consistently pointed to weak domestic demand conditions throughout the year. Credit card receivables declined in real terms by 5.7 per cent and GCT collections increased by 2.9 per cent in 2009 (see **Chart 38**). This pattern is indicative of a fall in the rate of growth of consumption which occurred in the context of the reduction in economic activity, rise in unemployment, wage restraint and a falloff in a major source of income, remittances (see **Production**). The weak consumer demand was corroborated by the Conference Board's survey that revealed that consumers remained pessimistic throughout 2009, as reflected in respective declines of 18.8 per cent and 16.8 per cent in the indexes of consumer confidence and consumer expectations. In addition, estimates of the output gap indicate that excess capacity conditions persisted throughout 2009, which would have a countervailing impact on price changes (see **Chart 39**).

Chart 38

Trends in GCT and Credit Card Receivables

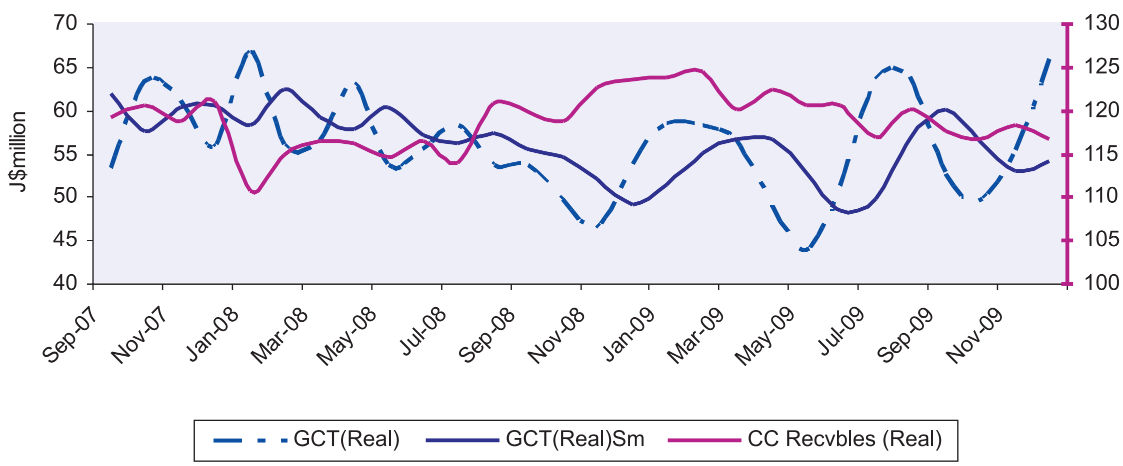
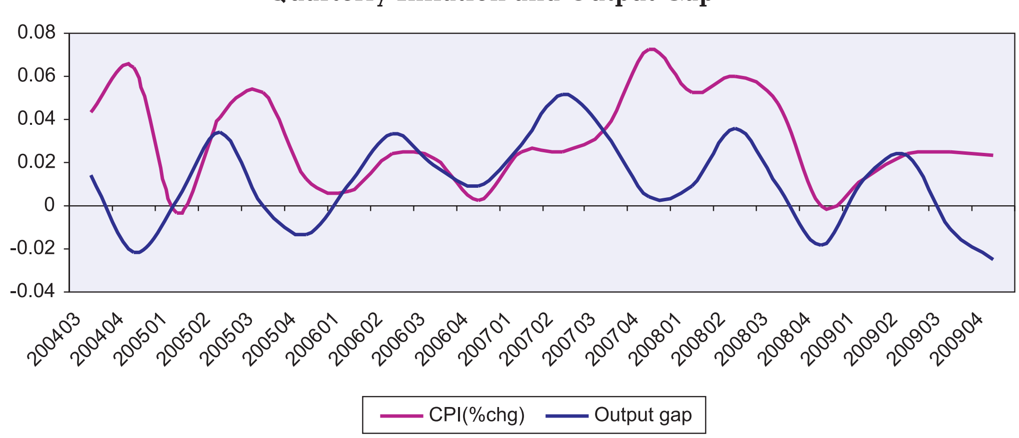


Chart 39

Quarterly Inflation and Output Gap[1]



[1]Output gap is expressed as the log difference between actual and potential output.

Inflation Expectations

Bank of Jamaica's survey of inflation expectations suggested that the level of inflation expected by the private sector remained high during 2009, in spite of a moderate decline during the year (see **Chart 40**). This is in sharp contrast to the significant fall in the annual inflation rates since September 2008. The elevated level of inflation expectations would have affected the pricing decisions of agents, mitigating an even greater deceleration in the actual rate of inflation.

Chart 40

Actual and Expected Headline Inflation

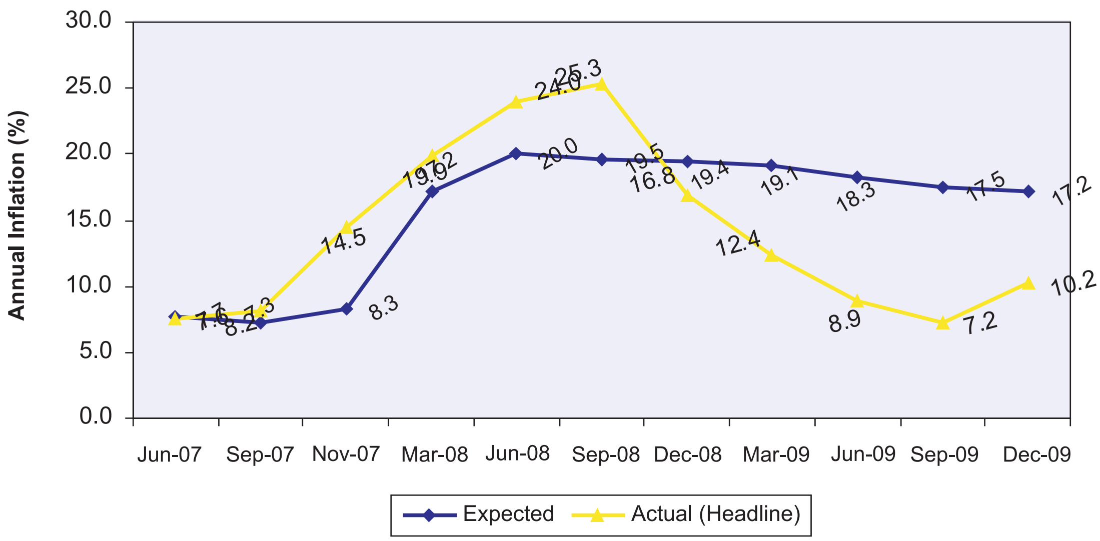


Table 68

JAMAICA: COMPONENT CONTRIBUTION TO INFLATION (2009)				
	Weight in the CPI	Inflation(%)	Weighted Inflation	% Contrib'n to Inflation
FOOD & NON-ALCOHOLIC BEVERAGES	**37.5**	**8.1**	**3.0**	**29.9**
Food	**35.1**	**7.9**	**2.8**	**27.3**
Bread and Cereals	6.1	6.8	0.4	4.1
Meat	7.7	10.1	0.8	7.6
Fish and Seafood	5.3	13.7	0.7	7.2
Milk, Cheese and Eggs	3.1	7.2	0.2	2.2
Oils and Fats	1.6	8.0	0.1	1.3
Fruit	1.1	7.5	0.1	0.8
Vegetables and Starchy Foods	6.9	-0.3	0.0	-0.2
Vegetables	4.6	-2.1	-0.1	-0.9
Starchy Foods	2.2	5.3	0.1	1.2
Sugar, Jam, Honey, Chocolate and Confectionery	1.7	21.0	0.4	3.5
Food Products n.e.c.	1.6	16.0	0.2	2.4
Non-Alcoholic Beverages	**2.4**	**11.8**	**0.3**	**2.7**
Coffee, Tea and Cocoa	0.7	13.2	0.1	0.9
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	1.7	11.4	0.2	1.9
ALCOHOLIC BEVERAGES & TOBACCO	**1.4**	**23.2**	**0.3**	**3.2**
CLOTHING & FOOTWEAR	**3.3**	**10.6**	**0.4**	**3.5**
Clothing	2.1	8.5	0.2	1.8
Footwear	1.2	13.6	0.2	1.6
HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS	**12.8**	**23.0**	**2.9**	**28.9**
Rentals for Housing	3.5	22.8	0.8	7.9
Maintenance and Repair of Dwelling	0.8	8.5	0.1	0.7
Water Supply and Miscellaneous Services Related to the Dwelling	1.3	16.0	0.2	2.1
Electricity, Gas and Other Fuels	7.1	26.2	1.9	18.4
FURNISHINGS, HOUSEHOLD EQUIPMENT & ROUTINE HOUSEHOLD	**4.9**	**9.8**	**0.5**	**4.7**
Furniture and Furnishings (inc. Floor Coverings)	0.7	7.5	0.1	0.5
Household Textiles	0.3	5.0	0.0	0.2
Household Appliances	0.6	8.8	0.0	0.5
Glassware, Tableware and Household Utensils	0.1	7.6	0.0	0.0
Tools and Equipment for House and Garden	0.2	6.4	0.0	0.1
Goods and Services for Routine Household Maintenance	3.2	11.2	0.4	3.5
HEALTH	**3.3**	**4.0**	**0.1**	**1.3**
Medical Products, Appliances and Equipment	1.2	5.7	0.1	0.7
Health Services	2.1	3.0	0.1	0.6
TRANSPORT	**12.8**	**6.1**	**0.8**	**7.7**
COMMUNICATION	**4.0**	**3.2**	**0.1**	**1.2**
RECREATION & CULTURE	**3.4**	**9.7**	**0.3**	**3.2**
EDUCATION	**2.1**	**6.6**	**0.1**	**1.4**
RESTAURANTS & ACCOMMODATION SERVICES	**6.2**	**7.2**	**0.4**	**4.4**
MISCELLANEOUS GOODS & SERVICES	**8.4**	**12.9**	**1.1**	**10.6**
ALL DIVISIONS	**100.0**	**10.2**	**10.2**	**100.0**

Table 69

REGIONAL INFLATION (2009)	Weights (%)	GKMA (%)	OUC (%)	Rural (%)
FOOD & NON-ALCOHOLIC BEVERAGES	**37.5**	**9.1**	**10.4**	**6.5**
Food	35.1	8.9	10.3	6.3
Bread and Cereals	6.1	8.4	6.3	6.2
Meat	7.7	12.8	10.3	8.3
Fish and Seafood	5.3	14.2	14.7	12.9
Milk, Cheese and Eggs	3.1	7.7	8.2	6.4
Oils and Fats	1.6	10.6	9.3	6.0
Fruit	1.1	7.0	12.7	4.8
Vegetables and Starchy Foods	6.9	-0.3	7.7	-3.8
Vegetables	4.6	0.4	8.7	-8.5
Starchy Foods	2.2	-1.8	5.5	11.6
Sugar, Jam, Honey, Chocolate and Confectionery	1.7	24.6	23.2	18.4
Food Products n.e.c.	1.6	15.8	21.1	13.9
Non-Alcoholic Beverages	**2.4**	**13.9**	**11.5**	**10.7**
Coffee, Tea and Cocoa	0.7	18.0	12.7	11.0
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	1.7	12.6	11.2	10.6
ALCOHOLIC BEVERAGES & TOBACCO	**1.4**	**26.1**	**24.9**	**21.0**
CLOTHING & FOOTWEAR	**3.3**	**10.2**	**7.1**	**12.0**
Clothing	2.1	8.5	8.5	8.5
Footwear	1.2	12.2	4.9	17.6
HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS	**12.8**	**19.4**	**26.7**	**24.6**
Rentals for Housing	3.5	14.7	35.1	35.4
Maintenance and Repair of Dwelling	0.8	9.5	8.9	7.7
Water Supply and Miscellaneous Services Related to the Dwelling	1.3	14.6	17.2	17.2
Electricity, Gas and Other Fuels	7.1	26.6	26.9	25.7
FURNISHINGS, HOUSEHOLD EQUIPMENT & MAINTENANCE	**4.9**	**10.1**	**11.8**	**8.7**
Furniture and Furnishings (inc. Floor Coverings)	0.7	3.2	8.9	10.4
Household Textiles	0.3	6.8	10.0	1.7
Household Appliances	0.6	11.3	7.9	6.9
Glassware, Tableware and Household Utensils	0.1	10.1	9.1	5.4
Tools and Equipment for House and Garden	0.2	10.1	8.0	5.6
Goods and Services for Routine Household Maintenance	3.2	11.7	13.3	9.6
HEALTH	**3.3**	**2.4**	**4.5**	**4.9**
Medical Products, Appliances and Equipment	1.2	4.6	5.8	6.5
Health Services	2.1	1.0	3.7	3.9
TRANSPORT	**12.8**	**7.0**	**6.6**	**5.5**
COMMUNICATION	**4.0**	**4.7**	**3.4**	**1.9**
RECREATION & CULTURE	**3.4**	**6.8**	**10.6**	**11.3**
EDUCATION	**2.1**	**8.0**	**5.3**	**5.7**
RESTAURANTS & ACCOMMODATION SERVICES	**6.2**	**9.5**	**3.0**	**7.3**
MISCELLANEOUS GOODS & SERVICES	**8.4**	**16.6**	**12.4**	**10.6**
ALL DIVISIONS	**100.0**	**11.0**	**11.6**	**9.1**

9. Public Finance

9.1. Central Government Performance

For the April to December 2009 period, Government operations resulted in a fiscal deficit of $99.2 billion or 9.3 per cent of GDP, compared to the deficit of $57.2 billion or 5.2 per cent of GDP for the comparable period in FY2008/09 (see **Tables 70** and **71**). Accordingly, the Government recorded a primary surplus of $33.5 billion or 3.1 per cent of GDP in the review period relative to a surplus of $37.9 billion or 3.5 per cent of GDP in the period April to December 2008. Of note, the primary surplus target for FY2009/10 is $66.9 billion or 6.2 per cent of GDP. Concurrently, the current deficit worsened to 7.6 per cent of GDP in the period April to December 2009 from a deficit of 3.7 per cent of GDP for the corresponding period in 2008.

Table 70

CENTRAL GOVERNMENT SUMMARY ACCOUNTS

(J$MN)

	FY 2008/09 Q1- Q3	FY 2009/10 Q1- Q3	Change	%
Revenue & Grants	**196 152.0**	**205 524.8**	**9 372.8**	**4.8**
Revenue	**193 309.8**	**199 753.2**	**6 443.4**	**3.3**
Tax Revenue	176 344.2	185 909.6	9 565.4	5.4
Non-Tax Revenue	11 984.5	11 237.0	- 747.5	-6.2
Bauxite Levy	4 150.4	1 498.0	-2 652.3	-63.9
Capital Revenue	830.8	1 108.7	277.9	33.4
Grants	2 842.1	5 771.5	2 929.4	103.1
Expenditure	**253 313.0**	**304 747.1**	**51 434.1**	**20.3**
Recurrent Expenditure	232 543.8	280 136.8	47 593.0	20.5
Programmes	54 412.3	53 183.9	-1 228.4	-2.3
Wages & Salaries	83 119.8	94 192.6	11 072.8	13.3
Interest	95 011.7	132 760.3	37 748.6	39.7
Domestic	67 942.5	96 991.7	29 049.2	42.8
Foreign	27 069.2	35 768.6	8 699.4	32.1
Capital Expenditure	20 769.2	24 610.4	3 841.2	18.5
Fiscal Balance	**-57 161.0**	**-99 222.4**	**-42 061.3**	**73.6**
Current Balance	**-40 064.7**	**-81 492.2**	**-41 427.5**	**103.4**
Primary balance	**37 850.7**	**33 538.0**	**-4 312.7**	**-11.4**

Table 71

FISCAL PERFORMANCE RATIOS (%)		
	FY 2009/10 Q1- Q3	FY 2008/09 Q1- Q3
Borrowing Requirement/GDP	9.3	5.2
Current Balance/GDP	-7.6	-3.7
Primary Balance/GDP	3.1	3.5
Interest Payments/GDP	12.4	8.7
Fiscal Stability Ratio	-1.5	-1.3
Non-Interest Expenditure	16.1	14.5

Key

BR = Borrowing Requirement = Fiscal Balance as a percent of GDP

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.*

Revenue & Grants for April to December 2009 were $9.4 billion higher than that recorded for the comparable period in 2008. The increase was largely influenced by a 5.4 per cent growth in *Tax Revenue,* in particular Special Consumption Tax (SCT) on imports and tax on interest. Notably, the growth in *Tax Revenue* was significantly below the average growth rate of 15.8 per cent for the corresponding period of the previous 3 years. In an attempt to meet the fiscal target for FY2009/10 and to improve revenues in subsequent periods, the Government introduced a new tax package in December 2009, to take effect on 01 January 2010 (see **Table 73**). The measures are expected to raise $21.8 billion on an annual basis.

The C-Efficiency (GCT) ratio for April to December 2009 was 42.6 per cent, compared to 38.6 per cent for the corresponding period of FY2008/09 and the 3-year average of 43.5 per cent (see **Table 71**).[65] The improvement in the C-Efficiency ratio for the April to December 2009 period, relative to the comparable period in FY2008/09 indicates that the decline in collections was not as significant as the fall in consumption, and is also reflective of an amelioration in tax administration.

There was a sharp improvement in the C-Efficiency (GCT & SCT), to 59.6 per cent for period April to December 2009. This was well

[65]The C-Efficiency ratio is the share of value-added tax (VAT) revenue in consumption.

Table 72

C-EFFICIENCY RATIO April – December (J$ Millions)	2006/07	2007/08	2008/09	2009/10*	3 YR AVG
Consumption	541 195.5	68 6651.9	822 263.1	736 700.3	683 370.1
Standard Rate (%)	16.5	16.5	16.5	16.5	16.5
GCT	42 397.4	48 706.7	52 314.8	51 765	47 806.3
GCT/Consumption (%)	7.8	7.1	6.4	7	7.1
C-Efficiency Ratio (%)	**49.0**	**43.0**	**38.6**	**42.6**	**43.5**
GCT&SCT	51 176.5	57 519.6	64 853.6	72 453.0	57 849.9
SCT&GCT/Consumption (%)	9.5	8.4	7.9	9.8	8.6
C-Efficiency Ratio (%)	**57.3**	**50.8**	**47.8**	**59.6**	**52.0**

*For Fiscal Year 2009/10, consumption figures used are BOJ estimates

Table 73

OVERALL SUMMARY OF ENHANCED REVENUE MEASURES	*J$mn*
1. Increase in the standard rate of GCT to 17.5 % from 16.5%	3 600.0
2. Re-introduction of the Ad Valorem component of the SCT	9 400.0
3. Increase in SCT on cigarettes	1 400.0
4. Increase in the rate of GCT applicable to the Tourism Sector	1 200.0
5. GCT on electricity for commercial and industrial customers	1 453.0
6. Pre-payment of GCT on value added merchandise at Customs	2 900.0
7. Increase in Income Tax for high income earners	1 317.0
8. Increase in Licence Fees for luxury vehicles	32.0
9. The removal of certain organization from the Third Schedule Part Three, Item 8 to the Customs Act.	25.0
10. Increase in CET rate on certain items	485.0
Total	**21 812.0**

above the 47.8 per cent for the corresponding period of FY2008/09 and the 3-year average of 52.0 per cent (see **Table 72**). The significant improvement in this measure reflects an increase in the SCT on petrol in particular, and underscores the limited capacity for evading payment of this tax.

Expenditure for the review period was $51.4 billion or 20.3 per cent above that recorded for the comparable period in 2008. All areas, with the exception of *Programmes,* exceeded 2008 levels with interest payments, in particular domestic payments, reflecting the largest increase. Higher domestic interest costs were associated with an expansion in the debt stock and higher nominal interest rates. Notably, expenditure in the final quarter of the fiscal year is expected to increase significantly as a result of the inclusion of accrued interest associated with the Jamaica Debt Exchange (JDX) programme.

Financing

During the April to December 2009 period, the Government relied more heavily on domestic sources to meet the higher deficit, relative to the corresponding period in 2008. In the 2009 period, a total of 45 instruments were issued, relative to 32 in the corresponding period in 2008. Concurrently, there was net amortization of foreign debt in the review period, compared to net foreign borrowing in the 2008 period, given inaccessibility to the international capital market and the timing of loans from multilateral institutions.

Debt Analysis

Jamaica's total debt stock was $1 346.7 billion or 125.8 per cent of GDP at end-December 2009, $146 600.4 million higher than the debt stock at the start of the fiscal year. The growth was reflective of increases in both the domestic and external portions of the debt stock. Domestic debt increased by $104 223.5 million or 16.0 per cent, while external debt rose by $42 184.8 million (US$416.7 million) or 7.7 per cent. Accordingly, at end-December 2009 the stocks of domestic and external debt were 70.6 per cent and 55.2 per cent of GDP, respectively, relative to ratios of 58.8 per cent and 49.5 per cent at end-March 2009.

Domestic Debt

The increase in domestic debt during the period April to December primarily reflected the funding of a larger than budgeted fiscal deficit in a context of weaker than projected revenue flows and higher than budgeted interest costs. Of domestic debt instruments issued during the period, 71.8 per cent were at fixed rates of interest. Notably, the weighted average interest rate on new fixed rate issues during the review period was 17.0 per cent, relative to 15.6 per cent for the comparable period in FY2008/09. Accordingly, the fixed rate portion of domestic debt increased to 48.9 per cent at end-December from 40.8 per cent at end-March, consistent with the Government's debt strategy for the fiscal year. The weighted average age of debt issued over the period declined to 4.0 years, relative to 4.8 years for the similar period in the previous fiscal year. Consequently, the short-term portion of domestic debt increased to 75.5 per cent at end-December from 67.4 per cent at end-March, resulting in higher refinancing risk. Notwithstanding the shift to shorter term issues, duration at end-December increased, relative to end-March, based on the heavier reliance on fixed rate issues. The foreign currency portion of domestic debt declined to 15.2 per cent at end-December from 16.8 per cent at end-March, reflecting slower growth, relative to that for Jamaica Dollar denominated debt within the portfolio.

External Debt

The increase in external debt for the fiscal year to December primarily reflected a US$297.1 million increase in bilateral debt, related to a loan to Development Bank of Jamaica (DBJ) from Venezuela. During the review period, Government guaranteed debt increased by US$262.6 million, while Central Government debt rose by US$154.1 million. External debt at end-December continued to be dominated by long-term fixed rate instruments.

Table 74

GOJ PUBLIC OFFERS OF INSTRUMENTS (EXCLUDING T-BILLS)
APRIL-DECEMBER

	Number of Offers			Value of Offers *(J$ millions)*			Proportion of Total *(%)*		
	2007/08	2008/09	2009/10	2007/08	2008/09	2009/10	2007/08	2008/09	2009/10
Variable Rate	9	14	11	56 236.3	23 475.3	28 606.8	60.9	23.7	16.3
Fixed Rate	10	8	31	30 061.1	45 764.1	126 014.4	32.6	46.2	71.8
US$ Indexed	1	3	1	6 047.5	11 002.8	4 218.4	6.5	11.1	2.4
US$ Denominated	-	7	2	-	18 867.2	16 649.7	0.0	19.0	9.5
TOTAL	20	32	45	92 344.9	99 109.3	175 489.4	100.0	100.0	100.0
Short-term and Medium-term	10	21	40	57 995.2	29 791.9	145 043.8	62.8	30.1	82.7
Long-term	10	5	5	34 349.7	69 317.5	30 445.6	37.2	69.9	17.3
TOTAL	20	26	45	92 344.9	99 109.3	175 489.4	100.0	100.0	100.0
				2007/08	**2008/09**	**2009/10**			
Weighted Average Age of New Debt (yrs.)				5.5	4.8	4.0			
Weighted Average Interest Rate on New Debt (%)				12.6	16.5	18.5			

Table 75

External Debt by Borrower Category
March 2009 - December 2009
(in millions of US dollars)

	March	June	September	December
Central Government	5 309.8	5 424.3	5 450.8	5 463.9
Government Guaranteed	867.8	855.6	1 135.7	1 130.4
BOJ	0.0	0.0	0.0	0.0
Total	**6 177.6**	**6 279.9**	**6 586.5**	**6 594.3**

Source: Ministry of Finance

10. Economic Outlook

10.1. Overview

The rate of contraction in Jamaica's real GDP is expected to decelerate significantly in 2010. This is in a context where the recovery in the world economy, which began in the second half of 2009, is expected to strengthen in 2010. Domestic economic activity, however, will be restrained by continued weak domestic demand, associated with fiscal consolidation and a weak labour market. Annual inflation should continue to moderate, notwithstanding the impact of GOJ revenue measures on prices. This moderation in inflation is predicated on continued exchange rate stability, lower imported inflation and some excess production capacity. The risks to the outlook mainly relate to external factors such as shocks to international commodity prices, a slower than anticipated recovery in the global economy and adverse weather.

10.2. International Economy

Global economic activity should strengthen in 2010 as the recovery in a number of the major economies solidifies. This is predicated on continued policy support, a turn in the inventory cycle, stabilization of the financial markets and a rebound in world trade. Against this background, the IMF projects that world output will increase by 4.0 per cent in 2010, driven by modest recovery in the advanced economies and robust expansion in the developing and emerging market economies.[66] The recovery in the advanced economies is expected to be led by the United States and Canada. Weak labour market and household balance sheets, particularly in the United States, however, remain a challenge to the rate of recovery. The expected robust growth among the developing economies will be led by China, India and Brazil and is predicated on strong internal demand as well as further expansion in commodity prices, mainly oil and metals.

The forecast for the continuation of the upward movement in international oil prices in 2010 reflects increased demand for fuel associated with global economic recovery, below-average winter temperatures in North America and Europe, as well as infrastructural projects in the US. However, the projected rate of increase of 4.6 per cent is significantly lower than the 79.9 per cent rise in 2009. The prices of agricultural raw materials on the international market are expected to decline in 2010. In particular, wheat, and soybean prices are projected to decline on average by 8.6 per cent, while the price of corn is expected to fall by 7.6 per cent during the year. Rice prices are also projected to decline marginally by 0.8 per cent, reflecting a gradual normalisation of prices following the dramatic rise in 2008. The forecast for grain prices is primarily predicated on expected good weather conditions

[66]World Economic Outlook, January 2010 Update.

in the US Midwest and major producing countries in South America. This would increase global supplies in excess of demand, further boosting high inventories.

10.3. Domestic Economy

10.3.1. Growth

The rate of decline in the Jamaican economy will slow appreciably in 2010 relative to 2009, due mainly to continued growth in agriculture and modest recovery in some tradable industries. However, weak domestic demand will continue to retard economic activity in the major non-tradable sectors.

Increased productivity is expected to continue to drive the expansion in ***Agriculture*** in 2010. Growth is expected in both export and domestic agriculture, reflecting increase acreage under cultivation as well as enhanced farming, harvest and post harvest activities. The recovery in the economies of Jamaica's major tourist markets, namely USA and Canada, will facilitate modest growth in visitor arrivals and consequently, the value-added of ***Hotels & Restaurants***. The expected expansion in visitor arrivals is consistent with the projected increase in the range of 3.0 per cent to 4.0 per cent in world travel in 2010. Diverse attractions as well as strategic marketing will provide added impetus to visitors travelling to Jamaica. Added room capacity will also facilitate additional visitors. The improvement in visitor travel as well as the rebound in world trade is expected to have a positive impact on ***Transport, Storage & Communication***.

Construction is projected to continue to contract for most of 2010, albeit at a slower rate than in 2009. The forecasted contraction is predicated on real declines in private construction investment, given reduced incomes. Reduced domestic consumption, consequent on lower disposable incomes and uncertainty in the job market, is expected to continue to have an adverse impact on the wholesale and retail trade.

10.3.2. Inflation

Inflation is expected to moderate in 2010, influenced by continued weak demand and a stable exchange rate. Demand conditions are expected to remain at levels similar to what occurred in 2009. Concurrently, excess capacity conditions are expected to persist in 2010 as output growth remains below potential. However, the size of the excess capacity in the economy will be lower than in 2009. The stability in the exchange rate of the Jamaica Dollar vis-á-vis the US dollar that characterized most of 2009 is projected to continue in the ensuing year. This outlook is predicated on improved investor confidence, precipitated by the engagement of a 27-month Stand-by Arrangement with the IMF, which is expected to influence some normalisation in private capital flows. Improved flows are also expected from tourism earnings and remittances. The moderating effect of these factors will be partially offset by the impact of Government's revenue measures in the March 2010 quarter as well as the rise in oil prices during the year.

10.3.3. Monetary Policy

The Bank's monetary policy in 2010 will be guided by the inflation objective outlined in the economic programme. In this regard, the stance of monetary policy will be adjusted as inflation expectations and the prospects for inflation improve. Reduced public sector demand, as outlined in the economic programme, will enhance the ability of the Central Bank to preserve macroeconomic stability.

11. Banking Services and Currency Operations

11.1. Banking Services

The Bank continued to provide a range of banking services to its customers during 2009. The customer base of the Bank includes the Government, licensed financial institutions, primary dealers, the Jamaica Central Securities Depository (JCSD) and regional central banks. In addition, the Bank continued to provide operational support to the Systemically Important Payment Systems (SIPS) in Jamaica. The SIPS is comprised of the Automated Clearing House (ACH) and the JamClear Real Time Gross Settlement (RTGS) System.

With regard to the ACH, the BOJ operates in the following capacities:[67]

- Participant – negotiating cheques drawn on commercial banks, sending and receiving electronic files with cheque data, direct debits and credits to and from the ACH Operator;
- Settlement Bank – effecting the settlement of clearing balances on the accounts of commercial banks;
- Providing oversight to the Payments System; and
- Supervising the manual clearing process for items that do not qualify for the ACH as well as for foreign currency cheques which qualify for domestic clearing.[68]

JamClear RTGS is a payment system owned and operated by the Bank. It is specifically designed to process large value, time-critical payments by the financial market participants (commercial banks, primary dealers and the JCSD).[69] Under the system, which was implemented on 27 February 2009, funds are transferred between accounts held at the BOJ by the financial market participants on a real time, transaction by transaction basis, continuously throughout any business day. Payments in the RTGS are final and irrevocable.

In providing banking services to the Government, the Bank continued to effect the settlement of GOJ primary issues in the domestic securities market, the redemption of GOJ Treasury Bills and the payment of external and domestic debt obligations.

During 2009, the Bank also continued to effect the settlement of open market operations in the domestic money market. In this regard, the Bank introduced the Central Securities Depository

[67]ACH is owned and operated by the six commercial banks.

[68]Cheques are drawn on local commercial banks or their correspondent overseas bank in the four major currencies: USD, CAD, GBP and EURO.

[69]Payments include government payments, money market or foreign exchange transactions, the cash leg of securities transactions as well as some commercial transactions.

(CSD) system in May 2009.[70] The CSD facilitates the maintenance of an electronic registry of the holdings of all BOJ securities issued, the sale of all new BOJ securities and the electronic clearing and settlement of all BOJ issues. The auction and issue of Government of Jamaica instruments will be introduced in the CSD in 2010. The CSD is fully integrated with the RTGS, allowing for immediate payment for all securities traded. Participants in the CSD include the commercial banks, licensed securities dealers, the Financial Services Commission (FSC) and the Ministry of Finance and the Public Service.

Other services which the Bank continued to offer during the review year included the settlement of equities traded on the Jamaica Stock Exchange (JSE) and regional payments on behalf of CARICOM central banks under a bilateral agreement.

Limited over-the-counter services were provided to the general public during 2009. These services included the exchange of mutilated Jamaica Dollar notes, redemption of coins, purchase of foreign currencies and sale of souvenir coins.

11.2. Currency Operations

11.2.1. Currency in Circulation

Banknotes and coins in circulation as at 31 December 2009 were valued at $52.5 billion, reflecting an increase of 5.9 per cent, relative to the end of 2008. Of this amount, $49.9 billion or 95.0 per cent were banknotes (see **Table 76**). The $1 000 note accounted for 70.4 per cent of total currency in circulation, in comparison to 72.9 per cent at the end of the previous year. The $500 denomination accounted for 13.9 per cent relative to 15.5 per cent in the prior year.

[70] CSD is owned and operated by BOJ.

Coins in circulation were valued at $2.6 billion as at 31 December 2009. The $20 denomination reflected the highest circulation value of $1 billion or 39.3 per cent of the total value of coins in circulation. The $10, $5, and $1 denominations were also significant circulatory coins accounting for 21.3 per cent, 15.4 per cent and 18.8 per cent, respectively, of the circulation value.

As in previous years, the $1 remained the most utilized coin denomination, driven by demand from the retail sector. As a result of this strong demand the $1 coin accounted for 486 million pieces or 33.6 per cent of the total number of coins in circulation.

Currency Issued

During 2009, the Bank issued 388.3 million banknotes valued at $231.8 billion. This value was 20.9 per cent above the comparative figure for 2008 (see **Table 78**). The $1000 and $500 banknotes accounted for 73.6 per cent and 20.3 per cent, respectively, of the total value of notes issued.

The value of coins issued in 2009 was $433.9 million, representing an 11.1 per cent decline in value, relative to 2008. This decrease was recorded in all denominations with the exception of the $5 coin for which the value remained flat, relative to 2008. The denomination registering the largest decline in issue was the $0.25 which fell by 20.7 per cent.

Table 76

COMPARATIVE BANKNOTES IN CIRCULATION (In Billion of Dollars) As at end December 2009			
Denomination	2008	2009	Percentage Change
$5000	0	2.7	
$1000	36.2	36.5	0.8
$ 500	7.7	7.2	-6.5
$ 100	2.5	2.6	4.0
$ 50	0.6	0.7	16.7
Others	0.2	0.2	0.0
TOTAL	**47.2**	**49.9**	**5.7**

Table 77

COMPARATIVE COINS IN CIRCULATION End December 2009/2008 (In Million of Dollars)			
Denomination	2008	2009	Percentage Change
	Current Circulatory Coins		
$20.00	949.0	1 018.5	7.3
$10.00	519.2	552.7	6.5
$5.00	371.3	399.1	7.5
$1.00	457.4	486.1	6.3
$0.25	59.6	61.1	2.5
$0.10	27.6	28.3	2.5
$0.01	0.8	0.8	0.0
Total	**2 384.9**	**2 546.6**	**6.8**
	Demonitised Coins [1]		
$0.50	31.4	31.4	0.0
$0.20	11.2	11.2	0.0
$0.05	2.5	2.5	0.0
Total	**45.1**	**45.1**	**0.0**
Grand Total	**2 430.0**	**2 591.7**	**6.7**

[1] *Demonetised Coins in circulation i.e. not yet redeemed to the BOJ.*

Table 78

COMPARISON OF NOTES ISSUED (In Billion of Dollars)			
Denomination	2008	2009	Percentage Change
$ 5 000	0	3.4	
$ 1 000	135.2	170.5	26.1
$ 500	46.2	47.1	1.9
$ 100	8.9	9.3	4.5
$ 50	1.5	1.5	0.0
TOTAL	**191.8**	**231.8**	**20.9**

Table 79

COMPARISON OF NOTES REDEEMED (In Billion of Dollars)			
Denomination	2008	2009	Percentage Change
$ 5 000	0	0.6	
$ 1 000	133.1	170.2	27.9
$ 500	46.8	47.6	1.7
$ 100	8.8	9.2	4.5
$ 50	1.4	1.5	7.1
Others	0.0	0.0	0.0
TOTAL	**190.1**	**229.1**	**20.5**

Currency Redeemed

During 2009, the Bank redeemed a total of 386.6 million banknotes valued at $229.1 billion (see **Table 79**). This quantity represented an increase of 20.5 per cent, relative to notes redeemed in 2008. The $1 000 denomination accounted for $170.2 billion or 74.3 per cent of the total redemption value. Notably, this was the only denomination to record any significant movement in the amount redeemed, relative to the previous year.

Coins redeemed declined by 3.9 per cent in value to $272.3 million. Redemption decreased for all the larger denominations; however, the smaller denominations of $0.10, $0.05 and $0.01 all recorded increases in the amount redeemed.

Bank Notes Sorted

The total number of notes processed in 2009 was 386.4 million. The number of banknotes sorted mechanically increased by 20.4 per cent to a total of 336.4 million, valued at approximately $225.6 million. Of the total number notes sorted during the year, 172.6 million pieces or 51.3 per cent valued at $137.5 billion were deemed fit and subsequently reissued. The remaining 163.8 million notes were categorized as unfit and automatically destroyed. In addition, 50 million notes were verified manually and deemed unfit.

Counterfeit Detection

In 2009, a total of 3 453 counterfeit banknotes valued $2.72 million were detected by the banking community. This compares favorably to the previous year when 5 349 pieces, with a value of $4.27 million were detected. By value, this represented a 36.3 per cent reduction while the number of pieces declined by 37.1 per cent. As in previous years, the denomination of choice for counterfeiters in 2009 was the $1 000 note. This denomination accounted for 83.8 per cent of the total value of counterfeit banknotes, reflecting a decrease of 6.20 percentage points relative to the total value in 2008. The $500 notes accounted for 15.1 per cent of the total value of counterfeit notes in 2009 compared to 8.0 per cent in 2008.

The central bank, through its processing operations, detected 37.9 per cent of the total value, compared to 34.4 per cent in 2008. Commercial banks detected 62.1 per cent of total value, relative to 65.6 per cent in 2008.

With an average of 82.7 million banknotes in circulation in 2009, the ratio of counterfeits in circulation, per million genuine banknotes was 42, reflecting a decline from 68 notes per million in 2008.

New Developments

New Banknotes

A $5 000 banknote was introduced in September 2009. The introduction of this new high value note was based mainly on two international benchmarks for currency structure. Prior to the introduction of the note, the Bank held public seminars in Kingston, Mandeville and Montego Bay to educate the public about the security features of the note.

The first benchmark states that where the highest denomination of any family of notes exceeds 60 per cent of the total value of notes in circulation, the authorities should consider introducing a new high value denomination. As at 31 March 2009, Jamaica's highest value banknote, the $1 000, accounted for 76.7 per cent of the total value of notes in circulation or 16.7 percentage points above the recommended international standard.

The second benchmark establishes a relationship between the note structure and daily average wages. It suggests that the optimum highest denomination should be five (5) times the average day's pay. Available data indicate that Jamaica's highest denomination should be in the region of $8,000, based on this benchmark.

The $5 000 note features the portrait of the Rt. Hon. Hugh Lawson Shearer, a former prime minister of Jamaica. It also features the Jamaican Nightingale (*Minus polyglotto*) on the front. The back of the note features the blossoms of the Frangipani *(Plumeria rubra)* and an aerial view of Highway 2000.

In addition to the standard security features on the existing banknotes - magnetic thread and ink, iridescence, fluorescence and the portrait watermark - this note has a special security thread known as ***Optiks***™ to further guard against counterfeiting.

At year end, the $5 000 denomination accounted for 5.5 per cent of the total value of notes in circulation **(**see **Table 76**).

Olympic Commemorative Coins

In recognition of the outstanding performance of Jamaica's athletes at the 2008 Beijing Olympics, the Bank issued four commemorative coins: two 22-carat gold and two bi-metallic (0.925 silver for the outer annulus with gold plated inner core).

The gold coins have a minting limit of 2 000 pieces while the bi-metallic have a minting limit of 5 000 pieces. The following table provides details on their respective specifications.

Table 80

SPECIFICATIONS OF THE COMMEMORATIVE COINS				
Denom.	**Alloy**	**Diameter**	**Reverse**	**Obverse**
$250	.916 AU (Gold)	28.40mm	Usain Bolt 100m and 200m Olympic and Wolrld Record Holder	Jamaica Coat of Arms
$250	.916 AU (Gold)	38.61mm	Usain Bolt, Michael Frater, Asafa Powell, Nesta Carter (4 x 100m Relay) Veronica Campbell-Brown (200m), Melaine Walker (400m Hurdles) and Shelly-Ann Fraser (100m)	Jamaica Coat of Arms
$100	Bi-Metallic - .925 AG (Silver) with Gold Plated Inner Core	38.61mm	Usain Bolt 100m and 200m Olympic and Wolrld Record Holder	Jamaica Coat of Arms
$100	Bi-Metallic - .925 AG (Silver) with Gold Plated Inner Core	38.61mm	Usain Bolt, Michael Frater, Asafa Powell, Nesta Carter (4 x 100m Relay) Veronica Campbell-Brown (200m), Melaine Walker (400m Hurdles) and Shelly-Ann Fraser (100m)	Jamaica Coat of Arms

In the case of the $1, the old seven-sided (heptagonal) design was replaced by a round coin with the heptagonal shape within the circle. The coin continues to bear the portrait of the Right Excellent Sir Alexander Bustamante. Other technical specifications remain unchanged.

New Shaped $1 and $10 Coins

In an effort to improve the efficiency of the mechanical sorting of the $1 and $10 coins, rounded versions of these denominations were issued in September 2009. Round coins are better tolerated by mechanical processors, thereby facilitating the speedy sorting and reissue of redeemed coins. This reduces the number of new coins issued by the Central Bank, thereby reducing the costs.

$1

$10

The scalloped shape design of the $10 was replaced by a round coin with the scalloped shape within the circle. This coin continues to bear the portrait of the Right Excellent George William Gordon. All other technical specifications remain unchanged.

Denominations with previous designs remain legal tender and will continue to circulate alongside the new shaped edition until stocks of the older coins are exhausted.

12. Payments System Developments

12.1. Introduction

The Bank of Jamaica implemented a Real Time Gross Settlement (RTGS) System and a Central Securities Depository (CSD) on 27 February 2009 and 15 May 2009, respectively. The implementation of the RTGS replaced the previous end-of-day batch-based system, the Customer Inquiry Funds Transfer System (CIFTS). On the other hand, the implementation of the CSD ushered in the electronic issuing, clearing and custody of domestic fixed income securities. These systems form the core of Jamaica's payments and settlement systems infrastructure and signalled the successful implementation of phase 1 of the National Payments System Reform programme.

Similar to what is done internationally, the RTGS and CSD have been branded JamClear, the acronym derived from 'Jamaica Clearance and Settlement Assured in Real Time'. The systems are therefore known as JamClear-RTGS and JamClear-CSD. The brand names chosen underscore the role of the specific systems, reflecting the attributes of reliability, security and efficiency. Both systems are owned and operated by the Central Bank.

Implementation of the systems was staggered to allow market participants to adjust to the operational requirements necessary in the switch from a batch-based, deferred net settlement environment, to a real time, gross settlement system. In the absence of the necessary legislative arrangements all participants were required to sign a Memorandum of Understanding and formally accept the Operating Rules of the JamClear systems. The implementation of JamClear-RTGS and JamClear-CSD has reduced the inherent systemic and credit risks that previously existed in the payments system.

Oversight of the Payments System

During 2009, payments system oversight was focused on guiding the modernization programme, while monitoring the activities of Systemically Important Payment Systems (SIPS) in accordance with international standards. The three (3) designated SIPS are:

- JamClear-RTGS: a centralized large value, multicurrency system owned and operated by the Central Bank
- JamClear-CSD: an electronic fixed income securities depository that enables the settlement, transfer and custody of all BOJ and Government of Jamaica (GOJ) securities issued locally; and
- the Automated Clearing House (ACH), which is owned and operated by the commercial banks and which facilitates the electronic clearing of cheques, together with the electronic transfer of funds.

The scope of the oversight function included the monthly review of both the JamClear systems as well as periodic review of System Wide Important Payment Systems (SWIPS) or retail payments systems, the clearing and settlement of selected foreign currency items and analysis of payments data from commercial banks.

Emphasis was placed on the assessment of the system's usage and utilization to inform policy decisions. A month-on-month review of the JamClear Systems indicated increasing volumes and values for the reporting period, indicative of user acceptance and increasing utilization.

12.2.1. Systemically Important Payment System (SIPS)

12.2.1.1 JamClear-RTGS

JamClear-RTGS is governed by agreed rules and procedures that were developed in collaboration with market participants in order to meet international guidelines. There are twenty one direct participants in JamClear-RTGS. They comprise seven commercial banks, two merchant banks, eleven primary dealers and the Bank of Jamaica. The Jamaica Central Securities Depository (JCSD) is also a participant, with accommodation specifically related to its role as settlement agent for the transactions executed through the Jamaica Stock Exchange (JSE).

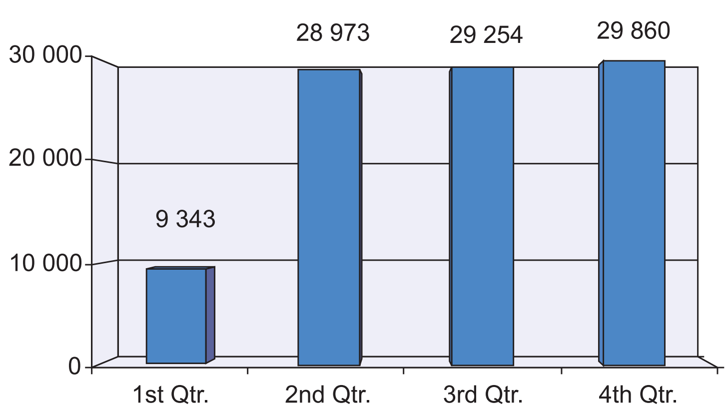
To ensure safety and efficiency in the system, all payments are final and irrevocable with no unwinding allowed, which effectively militates against systemic risk. Where participants do not have funds to settle, they have the option of obtaining funding from the Central Bank intra-day, once the necessary collateral is in place, with the understanding that loans must be repaid by the end of the same business day, failing which, the collateral is liquidated.

Volumes and Values

A total of 97 430 transactions with a value of over $7.4 trillion was processed in JamClear-RTGS for the period 27 February through 31 December 2009 (see **Chart 41**). A quarter-on-

Chart 41

JamClear-RTGS Quarterly Volumes 2009



quarter analysis of JamClear-RTGS indicated that transaction volumes totalled approximately thirty thousand per quarter with the exception of the first quarter when transactions processed totalled just over nine thousand, given that the system was implemented on 27 February 2009.

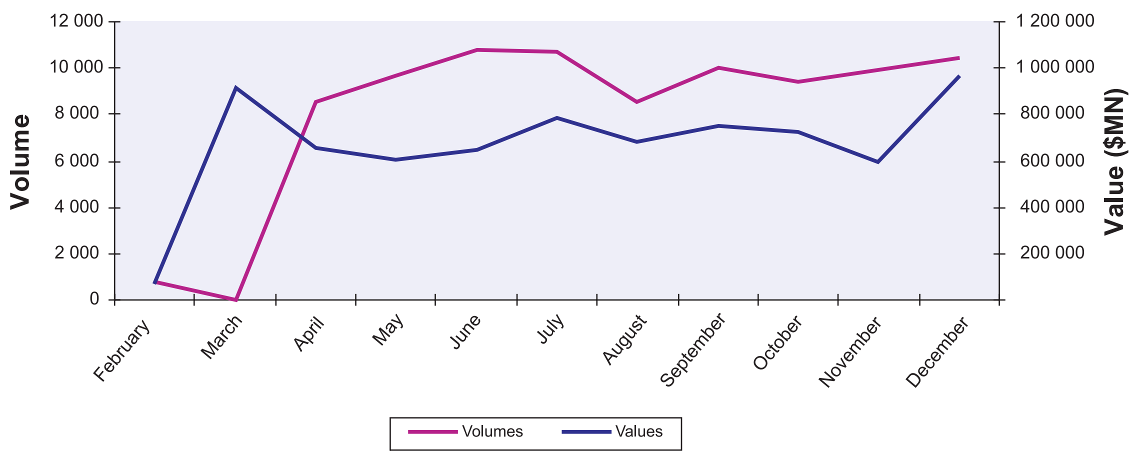
Monthly fluctuations in values and volumes during the period were due to changes in the level of market activity, inclusive of variations in maturity payments, currency redemptions and new issues (see **Chart 42**).

settlement infrastructure to assure safe, secure and efficient settlement in the payments system. A new department, the Electronic Securities Department (ESD) was established within the Bank in February 2009, to manage and operate the depository and its attendant functionalities and services.

JamClear-CSD is governed by agreed rules and procedures developed in collaboration with market participants with a view to reflect current international guidelines. As at 31 December 2009, there were forty-one direct participants in JamClear-CSD. They comprised

Chart 42

RTGS Transactions by Volumes and Values 2009



12.2.1.2. JamClear – CSD

JamClear-CSD is the first system of its kind to be implemented in Jamaica for domestic issue of fixed income securities. This electronic depository is fully integrated with JamClear-RTGS to ensure the immediate settlement of payment obligations that may arise from securities transactions on a delivery versus payment basis (DvP). The implementation of JamClear-CSD completed the modernization of the securities seven commercial banks, two merchant banks, eleven primary dealers, twenty secondary dealers and the BOJ in its capacity as issuer of BOJ instruments. At the end of 2009, there were no Government securities in the CSD as the Ministry of Finance and Public Service was not yet an active participant in JamClear-CSD.

Implementation of JamClear-CSD was done in phases, commencing with the dematerialization of BOJ instruments, followed by the immobilization of the existing BOJ paper certificates.[71,72] The depository achieved full dematerialization of (BOJ) issued open market (OMO) instruments. Since 15 May 2009, all OMO instruments have been cleared, settled and held in custody in electronic form within JamClear-CSD. The immobilization phase commenced on 06 July 2009 and is on-going. Resulting from the immobilization process, approximately 52.0 per cent of the volume and 60.0 per cent of the value of BOJ instruments were immobilized into JamClear-CSD as at 31 December 2009. Dematerialization and immobilization of GOJ securities will be implemented in Phase 2, following the finalization of the requisite legislative reform for GOJ securities.

Table 81

JAMCLEAR-CSD TRANSACTION TYPES BY VOLUME

2009

Transaction Types	Volume	% of Vol.
Bill Payment	138	0.7
Delivery Versus Payment	59	0.3
Free Of Payment	4 232	22.5
Initial Placement	3 321	17.6
Payment Of Interest & Coupon	1 653	8.8
Pledges	435	2.3
Redemption At Maturity	2 253	12.0
Repurchase Agreements	2 642	14.0
Reverse Repurchase Agreements	2 452	13.0
Taxation	1 653	8.8
Total	**18 838**	**100.0**

[71]Dematerialization enables the issue and trading of securities in electronic form only.

[72]Immobilization facilitates the holding of issued securities in electronic form within the depository.

JamClear-CSD offers a wide range of transaction types, the most utilized being the *Free Of Payment* instruction (see **Table 81**). *Repurchase Agreements* or repo transactions and reverse repurchase agreements accounted for 27.0 per cent of activity volume in JamClear-CSD. There are three types of repo transactions in JamClear-CSD:

1. Long-term Repo (excluding the Central Bank), which accounted for 63.0 per cent of repos,
2. Intra-day repo with the Central Bank, which accounted for 21.0 per cent of repos, and
3. Long-term repo transactions with the Central Bank, which accounted for 16.0 per cent of repos.

Volumes and Values

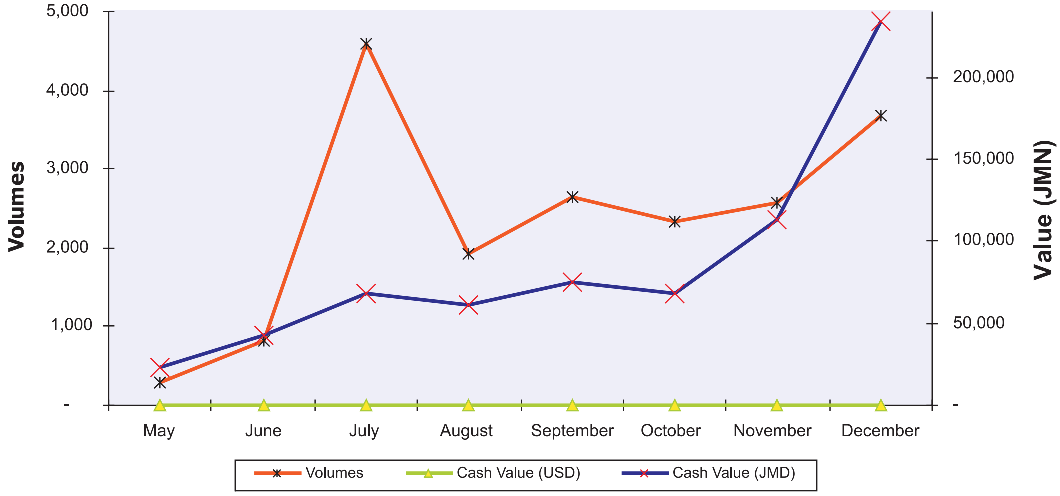
Since implementation, to the end of 2009, JamClear-CSD processed 18 838 transactions in both the primary and secondary markets for OMO instruments, with a nominal value of over $40.9 billion. There was a steady increase in the volumes and values processed, indicative of increasing acceptance and utilization of the system over the period of review. There was a significant spike in the volume of transactions in July 2009, which was a direct result of the immobilization of the BOJ paper securities (see **Chart 43)**.

Intra-day Liquidity Provision

Intra-day repo with the Central Bank is the mechanism normally used to provide intra-day liquidity via the CSD. However, with the

Chart 43

CSD Transaction Volumes and Values
2009

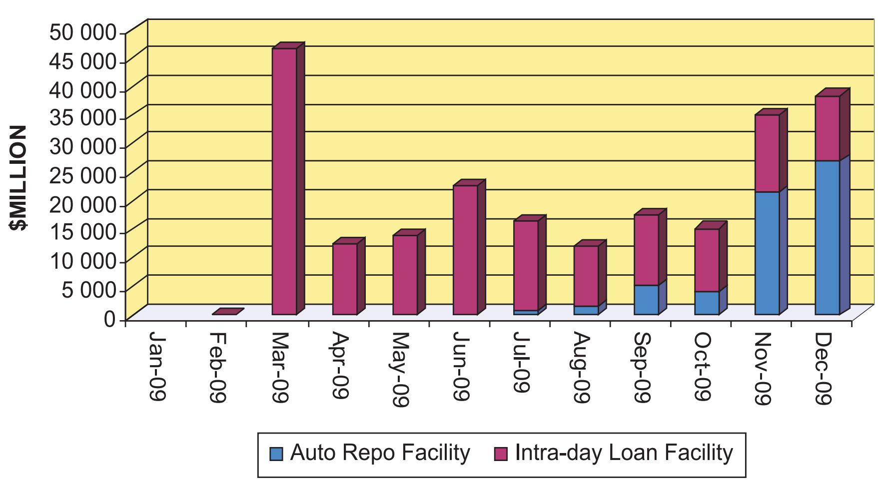


implementation of JamClear-RTGS in February 2009, intra-day liquidity was only provided via the intra-day loan facility (ILF). With the commissioning of JamClear-CSD in May 2009, participants were granted access to the Auto Repo facility in July 2009, thereby allowing access to intra-day liquidity using both the ILF and the Auto Repo facility.

There was significant growth in the use of the auto repo facility during the year, reflecting the dematerialization of paper instruments and the realized efficiency of trade settlements. As a consequence, the number of occasions on which participants accessed the facility increased from 3 in July to 229 in December, for a total of 542 for the review period. Auto repo transactions for the period to end-December were valued at $60 054.9 million (see **Chart 44**).

Chart 44

JAMCLEAR INTRA-DAY LIQUIDITY
2009



Over the period of review, intra-day liquidity was accessed by participants on 1 782 occasions with a total value of $230.8 billion. Sixteen participants accessed the intra-day loan facility, twelve accessed the auto repo facility, while sixteen used both intraday liquidity facilities.

12.2.2. Retail Payments

Automated Clearing House (ACH)-Cheques Processed

Cheques remained the major non-cash payment instrument in terms of value during 2009, albeit lower than in 2008, with the ACH being the major cheque-processing system. The amount of cheques processed in 2009 totalled 9.5 million and was valued at $2.4 trillion. These represented declines of 6.9 per cent and 12.5 per cent in volume and value, respectively, relative to 2008. The average cheque value in the ACH declined by 1.9 per cent to $258 055 in 2009, relative to 2008. The reductions in the volume and value in the ACH were consistent with expectations, consequent on the implementation of JamClear-RTGS. It is anticipated that with the implementation of the value threshold for ACH transactions, currently proposed at one million Jamaica Dollars, the average cheque value passing through the ACH will decline.[73]

Automated Clearing House (ACH) Direct Debits and Credits Processed

There was a significant increase in both the volume and value of electronic payments (debits and credits) in the ACH. In 2009, the total number of electronic payments routed through the ACH was 862 875, valued at approximately $149.7 billion, representing increases of 21.3 per cent and 54.2 per cent, respectively. This increase primarily reflected the continued shift from paper to electronic payments by corporate entities.

Proprietary or ('On us") Cheques

The total number of proprietary cheques processed by commercial banks was 12.3 million in 2009, valued at $2.4 trillion, representing declines of 4.7 per cent and 14.3 per cent, in volume and value respectively, relative to 2008. During 2009, the average proprietary cheque value declined to $195 053 from $217 000 indicating a shift into electronic payments.

Debit and Credit Cards

Approximately 1.7 million debit cards were in circulation in 2009, an increase of 10.7 per cent over 2008. The total number of credit cards in circulation was 187 611 or 1.5 per cent less than in 2008. The use of debit cards by value increased by 37.3 per cent to $276.0 billion, whereas, volume increased by 26.7 per cent to 57.0 million (see **Chart 45**). The value of credit card transactions grew by 9.9 per cent, when compared to 2008. Volume usage increased marginally during 2009.

Payment Terminals

At the end of 2009 there were 13 342 POS terminals and 419 ABM terminals, growth of 7.0 per cent and 3.3 per cent, respectively, relative to 2008. The total value of ABM and POS transactions

[73]The setting of the value threshold for ACH transactions will ensure that the ACH operates as a retail payment system, only processing low value transactions.

for 2009 was $379.0 billion, representing a 26.3 per cent growth compared to 2008. Total volume processed grew by 19.6 per cent to 67.0 million, relative to 2008. The average value of both POS and ABM transactions conducted during 2009 increased by 5.2 per cent to $5 661.00 (see **Chart 46**).

Clearing of Selected Foreign Currency Items

The Bank continued to provide clearing house services for foreign currency items issued by or drawn on local commercial banks during 2009. Eligible items were denominated in four currencies: US dollars, Canadian dollars, Great Britain Pounds and Euros.

For 2009, the foreign currency items cleared locally were valued at approximately US$2.7 billion, a 38.6 per cent decline compared to 2008. This reduction was reflected mainly in the decline of US dollar items. Over 96.0 per cent of foreign currency items cleared locally during the year were US dollar items.

Chart 45

Debit and Credit Card Transactions (JMD)
Volume and Value 2006 - 2009

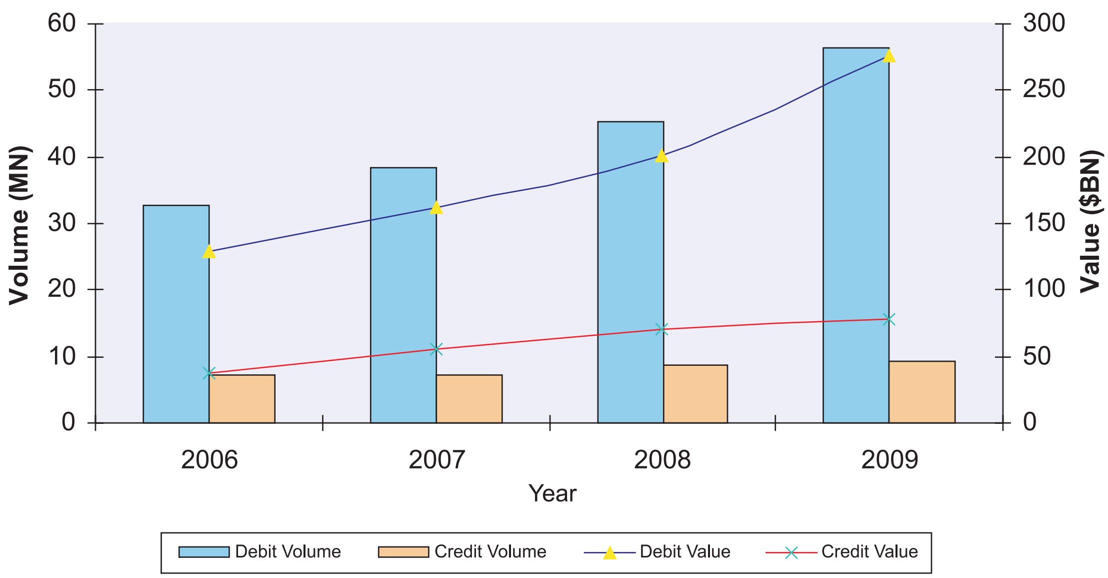


Chart 46

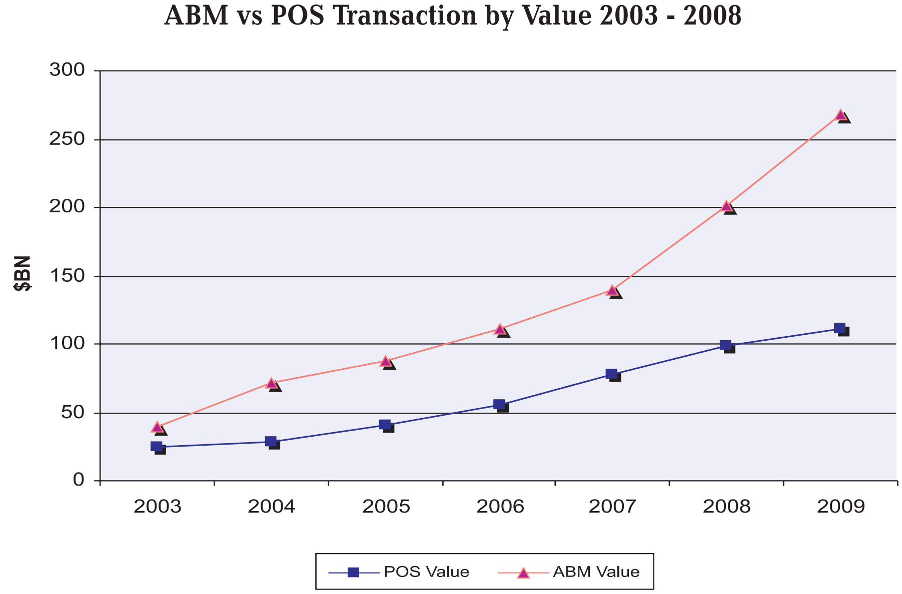


Table 82

FOREIGN CURRENCY ITEMS CLEARED (VALUE)				
Currency Units (USD Millions)	2006	2007	2008	2009
USD	3 679	3 982	4 271	2 618
CDN	24.7	29.2	24.0	30.0
GBP	71.3	112.5	73.1	63.3
Euro	6.5	11.8	8.1	5.7

13. Financial Legislation

Legislation Passed in 2009

The Bank of Jamaica (Amendment) Act, 2009

The Bank of Jamaica (Amendment) Act 2009 was passed in October 2009 and came into effect in December 2009. This amendment revises the 'legal tender' provisions (i.e. section 15) of the principal Act to impose a limit on the overall number of coins which will constitute legal tender for a transaction. The revised section 15 now reflects that payments made in coins of an amount not exceeding the face value of a maximum of 50 coins in any combination of denominations constitutes legal tender.

The legal tender limits established by the previous section 15(1) subsections (b), (c), (d) and (e) of the Bank of Jamaica Act ("the Act") were considered outdated, particularly in circumstances where denominations of coins were introduced to replace old notes. There was also the practical difficulty of persons seeking to tender coins in payment of bills that were high in dollar value, as well as merchants refusing to accept payments in coins even in cases where the payment would have met the requirement of legal tender. Section 15 (1) subsections (b)-(e) listed the maximum value of payments that should be made with coins not exceeding a stated value. In this regard,

- subsection (1)(b) referred to the payment limit of twenty dollars if payment was tendered in coins of denomination of not less than $1 coins;

- subsection (1)(c) referred to the payment limit of five dollars if payment was tendered in coins of denomination less than $1 but more than 5 cents;

- subsection (1)(d) referred to the payment limit of twenty cents if payment was tendered in coins of denomination less than 5 cents; and

- subsection (1)(e) referred to payment limit being the equivalent of the face value where payment tendered was in coins of denomination more than $20.00.

Given the transactions challenges associated with the aforementioned legal tender, the Act was amended to establish a new legal tender ceiling (i.e. limit of the face value of fifty pieces of coins in any combination of denominations) for the payment of an amount.

Pending Amendments To Financial Legislation

Payments and Settlement System Legislation

The draft Bill is currently being reviewed by the Legislation Committee of Parliament.

The Bank of Jamaica in conjunction with the Jamaica Bankers' Association (JBA), is spearheading the introduction of legislation to deal with the regulation of the payments and settlement systems of Jamaica. This legislation will formally establish the legal framework for the oversight of the payments and settlement systems and will address matters such as: -

(i) the finality of payments;

(ii) the effect of insolvency on payments already in the system and

(iii) upgrading the settlement infrastructure by, *inter alia*, allowing for real-time gross settlement.

Passage of this legislation will be the first step in ensuring that Jamaica's payment and settlement system operates in accordance with the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems. These Core Principles are the payment system standards used by international agencies such as the World Bank and the International Monetary Fund (IMF) to assess the safety and soundness of payment systems generally.

The Cooperative Societies (Amendment) Bill

The amendment to the Cooperative Societies Act will, among other things, bring credit union cooperative societies under the regulatory ambit of the Minister of Finance and the Public Service and Bank of Jamaica. Accordingly, this Bill includes provisions that will restrict the deposit-taking activities of cooperative societies to those cooperative societies, which operate as credit unions. Other substantive enhancements to the Cooperative Societies Act are contemplated by the Ministry of Industry, Investment and Commerce (MIIC) (formerly the Ministry of Investment, Commerce and Technology), which is the Ministry with portfolio responsibility for cooperative societies. It is anticipated that this Bill will be presented to Parliament jointly with the draft Bank of Jamaica (Credit Union) Regulations. The draft Regulations contain the substantive prudential requirements to which credit unions will be subject once the aforesaid regulatory regime comes into effect.

Omnibus Statute

The Bank is in the process of reviewing legislation governing the operations of deposit-taking entities (i.e. the Banking Act, Financial Institutions Act and the Building Societies Act) with a view to consolidating these pieces of legislation into one consolidated statute. In so doing, it is intended that any existing inconsistencies between these statutes will be removed and this will ensure a more synchronized progression of updates to the laws governing the deposit-taking industry. This initiative is also intended to implement enhancements regarding consolidated and conglomerate supervision that will bring the regulation of the banking sector in line with the recently issued Revised Basel Core Principles (i.e. Basel II). The Basel Core Principles are the global standards for prudential regulation and supervision of banking systems. Revisions to the financial legislation will also focus on current issues such as outsourcing, as well as the proposed role of credit bureaux, provisions for electronic reporting and enhancing powers as regards the investigation and prosecution of illegal deposit taking activities. In 2008, the Bank submitted a policy working paper on the matter. The paper is being updated and will inform the subsequent submission to Cabinet that will follow to commence the legislative process.

Pending Financial Regulations

The Banking (Form of Application) Regulations

The Financial Institutions (Form of Application) Regulations

These regulations will comprise the prescribed application form under the respective Acts. The earlier format of licence fees regulations under the Banking Act and the Financial Institutions Act that dealt with both licence fees and the prescribed form of application was not retained. It was felt that the matter of the prescribed application form should be addressed via separate regulations so that the periodic upgrading of this form would not disrupt the licence fees aspect of the regulatory regime. These regulations will also include enhancements to the application form to capture certain basic particulars from applicants, that were not captured under the old forms, as well as enhancements to bring them in line with the revised Core Principles.

The revised form will also require the principals signing on behalf of the applicant company to certify that the information given in the form is accurate to the best of their knowledge and belief. Similar reforms to the application form under the Building Societies Act will be subsequently effected.

The Building Societies (Licence Fees) Regulations

These regulations will be revised to bring the fees payable in line with the applicable fees under the 2003 Licence Fees Regulations under the Banking Act and the Financial Institutions Act (See **Supervision of Deposit-Taking Financial Institutions**).

The Banking (Qualification of Auditors) Regulations

These regulations will create a framework for ensuring that auditors, who are proposed as the statutory auditors of financial institutions, are independent of the financial institutions being audited (See **Supervision of Deposit-Taking Financial Institutions**).

The Banking (Credit Classification and Provisioning) Regulations

These regulations will formally impose the measures that banks are required to take in assessing credit, taking security and making provisions for the possibility of default (See **Supervision of Deposit-Taking Financial Institutions**).

The Bank of Jamaica (Credit Union) Regulations

These regulations will bring the operations of credit unions fully under the Bank of Jamaica prudential supervisory regime. They will therefore, among other things, cover licensing, capital, reserves, prohibited business, remedial and intervention processes and the role of specially authorized credit unions (see **Supervision of Deposit-Taking Financial Institutions**).

Pending Non-Financial Legislative Amendments

The Bank of Jamaica is involved in the process of formulating certain items of non-financial legislation.

(i) The Credit Reporting Bill

This Bill was tabled in Parliament in July 2008 and reviewed by a Joint Select Committee of Parliament in 2009. The report of the Joint Select Committee, comprising recommended amendments to the Bill, was tabled in Parliament. The Bill was passed in the Lower House on 9 February 2010 and is to be debated in the Senate. On passage, this statute will establish a credit reporting system which is designed to improve credit assessment processes and to facilitate enhanced risk management and loan pricing strategies throughout the financial sector. A licensing system will be imposed on persons who intend to offer credit reporting services. Prescribed reporting processes have been outlined to ensure the objective and standardized reporting of credit information under this regime. Persons offering credit reporting services will be subject to regulation by the Bank of Jamaica.

(ii) The Financial Investigations Division Act (FIDA)

This Bill was tabled in Parliament on November 12, 2008 and reviewed by a Joint Select Committee of Parliament in 2009. The report of the Joint Select Committee comprising recommended amendments to the Bill, is to be tabled and the Bill is to be debated in the lower House.

The passage of this Act will satisfy Jamaica's obligation to comply with recommendation 26 of the (FATF) 40 (revised) recommendations which states that: -

"Countries should establish a Financial Intelligence Unit that serves as a national centre for the receiving, analysis…and dissemination of suspicious transaction reports and other financial information regarding money laundering or terrorist financing".

Allied to this recommendation is the FATF advisory that such unit when established, should consider applying for membership in the Egmont Group[74].

(ii) **<u>Terrorism Prevention (Reporting Entities) Regulations</u>**

The final draft of these Regulations was completed and scheduled to be tabled in Parliament in March 2010 for Affirmative Resolution.

These Regulations will be promulgated under the Terrorism Prevention Act and will outline the operational controls that must be maintained by financial institutions, particularly when contemplating the commencement of a business relationship, or one-off transaction. As such, these regulations will therefore largely mirror the Know Your Customer (KYC) obligations contained in the regulations under the Money Laundering Act and will therefore require financial institutions to establish and maintain appropriate procedures in relation to identification, record-keeping (minimum 5 years retention period), internal controls, communication and training of employees. These Regulations will also prescribe the requisite Declaration Forms for transactions which the reporting entity knows or suspects is one that constitutes a terrorism offence; and for the quarterly reports, as to whether or not the reporting entity is holding property in respect of a person who is on the United Nations list of designated terrorists or in respect of a person who has links with terrorists, or terrorist groups or organizations.

[74]*"The Egmont Group is an informal group of financial intelligence units (FIUs) established in 1995. The group was so named for the location of the first meeting at the Egmont-Arenberg Palace in Brussels. The goal of this group is to provide a forum for FIUs to improve support to their respective national anti-money laundering programmes. This support includes expanding and systemizing the exchange of financial intelligence information, improving expertise and capabilities of personnel of such organizations, and fostering better communication among FIUs through application of technology."* Source: Information Paper on FIUs and the Egmont Group – (See the FATF web site at www.fatf-gafi-org or see www1.oecd.org/fatf/ctry-orgpages/org-egmont_.htm

14. Administration

Overview

In 2009, the Administration and Technical Services Division undertook several enabling activities. These included:

- The piloting of an Electronic Vacation and Sick Leave Application System aimed at improving efficiency of the leave application and approval process;

- Implementation of an electronic recruitment system; and

- Adoption of a more aggressive and proactive approach to the management of occupational health and safety issues within the organization, inclusive of: closer monitoring of the Bank's main plant and external facilities, building staff awareness of occupational health and safety issues and strengthening the operational effectiveness of Occupational Health and Safety Committees within the Bank.

Staffing and Industrial Relations

On 30 October 2009, the Hon. Derick Latibeaudiere demitted office as Governor of the Central Bank, after serving in that capacity for thirteen years. In total, Mr. Latibeaudiere provided over thirty-five (35) years of service to the institution.

Mr. Brian Wynter was appointed Governor on 23 November 2009. Prior to his appointment as Governor, he was Capital Markets/Financial Sector Advisor with the Caribbean Regional Technical Assistance Centre (CARTAC). He was previously employed to the Bank as Deputy Governor in the Banking and Market Operations Division during the period 1995 to 1999 after which he was appointed Technical Advisor to the Minister of Finance. Mr. Wynter was appointed the first Executive Director of the then newly-established Financial Services Commission in August 2001 and served in that capacity until December 2007.

At the end of 2009, the Bank's staff complement was 589, an increase of 2.5 per cent, relative to 2008. Of the total persons employed, 492 were on a permanent basis, 21 were on contract and there were 76 project staff.

There were 1 337 applications for employment during the year, a 20.0 per cent decrease, compared with the number for 2008. The largest number of applications continued to be for positions in accounting, auditing and financial institutions supervision. Twenty-four persons were hired to the permanent staff, of which five were staff replacements. In addition, twenty-nine persons were employed on a contractual basis. Of the fifty-three newly employed persons, sixteen had post graduate and professional qualifications, fifteen possessed undergraduate degrees, while twenty-two had a combination of other tertiary and secondary school qualifications. The staff turnover rate for 2009 was 3.9 per cent, a 1.8 percentage point reduction, relative to 2008 and reflecting greater stability for the institution.

The two-year Collective Management/Labour Agreement between the Bank and staff for the 2008/2010 Contract period provided for annual salary and benefits adjustments of 15.0 per cent and 7.0 per cent on 1 April 2008 and 1 April 2009, respectively. However, in keeping with a directive from the Ministry of Finance, adjustments in the second year of the two-year agreement were not implemented. Accordingly, in order to assist members of staff in developing the requisite skills to meet the challenges of a difficult economic and social environment, the Training Institute and Human Resource Administration Department initiated several training interventions on money management and other coping skills. These were reinforced by bulletins on safety and health issues.

In 2009, the Occupational Safety & Health Unit intensified its focus on the health, safety and general well-being of staff, pensioners and visitors to the Bank. During the year, the Unit conducted several activities, including:

- Hosting health seminars and fairs, inclusive of prostate cancer and mammogram screenings;
- Safety inspections of the Bank's main plant and external properties;
- Circulated occupational safety and health bulletins; and
- Commissioned assessments of the Bank's Indoor Air and Water Quality.

Other efforts included the implementation of preventative measures by the Bank's Pandemic Committee, in consultation with the Bank's doctor. The measures which were in response to the H1N1 Influenza A virus included an extensive education programme which was facilitated by bulletins and seminars. Additionally, there was an intensification of the Bank's housekeeping and hygiene practices which was closely monitored by the Occupational Safety and Health Unit.

Training and Development

During 2009, the Bank provided training opportunities for staff, which was consistent with the theme ***"Building Organizational Capacity"***. Focus was placed on combined specialized training aimed at building the managerial and technical competencies of staff.

For the year, the Bank's Training Institute facilitated one hundred and twenty training programmes for three hundred and seventy members of staff. In addition, the Institute conducted and managed several discussions on health, lifestyle and other topical issues. Forty-three members of staff attended twenty-nine specialized overseas training programmes conducted or sponsored by regional and international organizations such as the Caribbean Regional Technical Assistance Centre (CARTAC), the World Bank, the International Monetary Fund, Centre for Latin American Monetary Studies (CEMLA) and the US Federal Reserve Board.

In its thrust to provide low-cost, flexible but high-quality training in 2009, the Bank increased its e-learning interventions. Seventy-one persons participated in online training programmes offered by the Financial Stability Institute of the Bank for International Settlements, The United Nations Institute for Training and Research (INITAR) and Harvard Business Publishing.

During the review period, the Bank collaborated with the following overseas organizations to host six In-country Training Programmes: The Association of Supervisors of Banks of the Americas (ASBA), the US Federal Reserve Board, Caribbean Group of Banking Supervisors (CGBS), Centre for Latin American Monetary Studies (CEMLA), Deutsche Bundesbank, the Financial Stability Institute, and the MIS Training Institute. Courses were conducted on "*Credit Risk Management*", "*Bank Analysis and Examination*", "*Crisis Preparedness*", "*Anti-Money Laundering*", *Modelling and Forecasting*" and "*Advanced Auditing for the In-Charge Auditor*". Participants were drawn from Caribbean and Latin American central banks, monetary authorities as well as the local financial sector. Additionally, the Bank, in conjunction with the University of the West Indies and the Caribbean Centre for Money and Finance (CCMF) hosted the 13th Annual Senior Level Policy Seminar which was presented under the theme *"Strategies to Cope with Global Uncertainty – Choices for Caribbean Business and Finance"*.

In 2009, the Bank commenced the first phase of its association with the Human Employment and Resource Training /National Training Agency (HEART/NTA) to train and certify artisan and occupational groups to international standards. Phase I involved the upgrade and certification of skills and competencies of the Bank's electrical and mechanical technicians. Phase II of the programme in which two additional groups – security and porter services, will be trained and certified, is scheduled to commence in 2010.

Pension Administration

During the latter half of 2009, the Financial Services Commission (FSC) approved the licensing and registration of the Bank of Jamaica as Investment Manager and Administrator of the Bank of Jamaica Pension Scheme, the registration of Member and Pensioner Trustees and the registration of designated officers responsible for pension administration and investment of the Scheme's assets. In October, the Bank was issued with its operating licences by the FSC. Further mandatory amendments to the Rules and Trust Deed required by the FSC were completed by the end of the year and will be submitted for approval in early 2010. Approval of the Rules and the Trust Deed by the FSC will signify the end of the registration/licensing process for the Pension Scheme, Trustees and relevant officers. Statutory reporting regulations require that the Bank and its Responsible Officers prepare compliance reports on the operations and performance of the Pension Scheme for review by the FSC. The process commenced in 2008 and continued in 2009.

Plant and Physical Infrastructure

During 2009, significant effort was directed at maintaining and improving the Bank's main plant and infrastructure as well as the physical amenities of external properties. Major projects undertaken during the year included:

- Installation of a 1 500 KVA, Standby Generator to provide an adequate supply of electricity in the absence of electricity from the public power company;
- Installation of a new air-conditioning chiller;
- An upgrade to the Currency Department's air-conditioning and exhaust systems;
- Development and renovation work to the Long Acres property and Pensions Fund Building.

The Bank also implemented several recommendations made in the Vulnerability Assessment Report of the Nethersole Place Plant, conducted in 2008. In addition, evacuation simulations and fire drills were conducted. At the end of the year, the procurement of a glass fenestration system which will protect the Bank against Category Five hurricane-force winds and provide insulation from heat and sound, was awaiting the approval of the Cabinet.

15. Compensation of Senior Executive Management

Compensation of Senior Executive Management

		$	$
Salary Range of Executive Management		7 927 563.00	16 078 592.00
Allowances of Executive Management			
(a)	Governor	10 818 360.00	
(b)	Deputy Governors	830 856.00	

Notes

Executive Management includes the Governor, the Senior Deputy Governor, four Deputy Governors, and a General Manager. The allowance to the Governor represents the cost to the Bank of a fully maintained residence. The Governor is also provided with an official car. The Deputy Governors and the General Manager, in addition to the allowance referenced above, are provided with motor vehicles. Members of the Executive Management Team are also eligible for benefits including health insurance, life insurance, staff loans, and, with the exception of the Governor and Deputy Governor - General Counsel, are members of the non-contributory pension scheme sponsored by the Bank.

16. Calendar of Monetary Policy Developments

02/01/2009 The CRR and the LAR for both domestic and foreign currency liabilities of commercial banks, institutions licensed under the Financial Institutions Act and building societies were increased by 2 percentage points to 13 per cent and 27 per cent respectively in the case of domestic currency liabilities and 11 per cent and 25 per cent, respectively in the case of foreign currency liabilities.

03/02/2009 The Bank of Jamaica established the Foreign Exchange Surrender Facility for public sector entities (PSE Facility). The aim of the facility is to centralize foreign currency demand of the public sector, especially Port Authority of Jamaica (PAJ), National Water Commission (NWC) and Petrojam. Under this facility Commercial Banks agreed to surrender fifteen per cent (15%) of foreign currency purchases daily. The pre-existing requirement where Authorized Dealers and Cambios surrender within a range of five per cent (5%) to ten per cent (10%) of their gross foreign currency purchases from commercial clients remains in effect. Therefore commercial banks are to surrender, in total between twenty per cent (20%) to twenty-five per cent (25%) of foreign currency purchases daily.

06/02/2009 The CRR and the LAR in respect of Jamaica Dollar liabilities of deposit-taking institutions were increased by 1 percentage point to 14 per cent and 28 per cent, respectively. The respective ratios relating to foreign currency liabilities remained unchanged at 11 per cent and 25 per cent.

The CRR and LAR are differentially applied to Building Societies. Domestic currency reserve requirements are based on meeting the 40 per cent threshold of domestic currency denominated qualifying assets in relation to domestic currency deposits and withdrawable shares. Foreign currency requirements are determined by meeting the 40 per cent threshold of all (domestic and foreign currency) qualifying assets against all deposits and withdrawable shares. Accordingly, cash reserve ratios of one per cent and fourteen per cent (1% and 14%) and the liquid assets ratios of five per cent and 28 per cent (5.0%and 28%) apply to Building Societies, depending on whether they meet the aforementioned 40 per cent (40%) threshold in respect of the above-mentioned prescribed domestic currency liabilities.

Similarly, in the case of liabilities payable in foreign currency, cash reserve ratios of one per cent and eleven per cent (1% and 11%) and the liquid assets ratios of five per cent and 25 per cent (5.0% and 25%) apply, depending on whether the Societies meet the 40 per cent (40%) threshold. Societies that meet the prescribed 'qualifying assets' threshold attract the lower cash reserve and liquid assets requirements. The higher requirements apply to those Societies which fail to meet the prescribed thresholds.

08/04/2009 The rate payable on a 1-year Certificate of Deposit issued by Bank of Jamaica was reduced to 22.67 per cent. Rates on other tenors remained unchanged.

Tenor	30 days	60 days	90 days	120 days	180 days	365 days
New rates (%)	17.00	17.50	20.00	20.20	21.50	22.67
Previous rates (%)	17.00	17.50	20.00	20.20	21.50	24.00

The previous rate of 24 per cent included a premium that the Bank had offered to encourage longer term placements by investors. The adjustment on the one-year CD removed that premium and brought the yield on a one-year placement in line with that earned on a 180–day BOJ instrument. It was noted that while rates had been falling in recent auctions of Treasury Bills, the then current yield on a 6-month Bill remained above the comparable BOJ rate.

03/06/2009 The Bank of Jamaica temporarily ceased offering its one-year OMO instrument to Primary Dealers and Commercial Banks.

24/07/2009 Interest rates applicable to Bank of Jamaica's open market instruments were reduced by 100 basis points. The revised schedule of rates is as follows:

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	16.00	16.50	19.00	19.20	20.50
Previous rates (%)	17.00	17.50	20.00	20.20	21.50

This action came against the background of positive trends in key monetary policy indicators. Notably, the twelve-month point-to-point rate of inflation as at June 2009 fell to 9.0 per cent, from 12.4 per cent at the end of fiscal year 2008/09 and 24.0 per cent as at June 2008. This outturn was underpinned by continued stability in the foreign exchange market.

Additionally, the BOJ's gross foreign reserves had stabilized at US$1.6 billion.

The prospects for continued stability in money and foreign exchange markets were strengthened by the Government's decision to secure a Stand-by Arrangement with the International Monetary Fund. Finalization of an agreement would pave the way for additional inflows from other multilateral institutions and a reduction in the Government's reliance on domestic financing.

30/07/2009 Effective Thursday, 30 July 2009, the interest rates applicable to Bank of Jamaica's open market instruments will be reduced by 150 basis points across all tenors. The revised schedule of rates is as follows:

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	14.50	15.00	17.50	17.70	19.00
Previous rates (%)	16.00	16.50	19.00	19.20	20.50

This further rate reduction occurred against the background of continued improvements in the money markets, reflected in the continued reduction in the yields on GOJ Treasury Bills. In addition, this action reflected the Bank's assessment that, in the context of an extended period of stability in the foreign exchange market, inflation was likely to be lower than the 11 - 14 per cent range originally targeted for fiscal year 2009/2010. Further, the demand for foreign exchange to meet current payments and for portfolio purposes had slowed. In this context, the Bank's holdings of foreign exchange reserves remained adequate.

20/08/2009 Interest rates applicable to Bank of Jamaica's open market instruments were reduced by 100 basis points. The revised schedule of rates is as follows:

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	13.50	14.00	16.50	16.70	18.00
Previous rates (%)	14.50	15.00	17.50	17.70	19.00

This rate adjustment came against the background of a notable decline in inflation and continued stability in the foreign currency market. The twelve-month point-to-point rate of inflation as at July 2009 declined further to 7.0 per cent, from 8.9 per cent in June 2009.

Inflation expectations, measured by regular surveys of the business sector, continued to fall as input costs had also stabilized over the past six months. This trend was expected to continue and, in conjunction with weak aggregate demand, should temper underlying inflation impulses.

17/09/2009 The rates offered on Certificates of Deposit issued by Bank of Jamaica were reduced by 100 basis points. The six-month benchmark rate therefore moved from 18.00 per cent per annum to 17.00 per cent. The full schedule of BOJ rates is set out below.

Tenor	30 days	60 days	90 days	120 days	180 days
New rates (%)	12.50	13.00	15.50	15.70	17.00
Previous rates (%)	13.50	14.00	16.50	16.70	18.00

The adjustment to policy rates followed the better than expected inflation outturn for August 2009, which showed a further drop in the 12-month point-to-point inflation to 6.1 per cent from the 7.0 per cent reported for July. The stability of the exchange rate, the improvement in domestic agricultural supplies, and the moderate growth in domestic money supply, all point to the likelihood of single-digit inflation for fiscal year 2009/2010. The improved prospects for inflation and macroeconomic stability were reflected in market rates, with the downward trend in Treasury Bill yields and other short term rates. The easing of monetary policy was also supported by the relatively strong position of the net international reserves of the Bank of Jamaica which stood at US$1.95 billion.

18/12/2009 Interest rates applicable to Bank of Jamaica's open market instruments were reduced by 200 basis points. The benchmark six-month rate will therefore move from 17 per cent per annum to 15 per cent. The full schedule of BOJ rates is set out below.

Tenor	30-days	60-days	90-days	120-days	180-days
New Rates (%)	10.50	11.00	13.50	13.70	15.00
Previous Rates (%)	12.50	13.00	15.50	15.70	17.00

The adjustment in interest rates occurred against the background of the positive trends in key economic indicators (inflation, the balance of payments and the exchange rate) which were expected to be sustained over the medium term. This outlook was underscored in the economic programme agreed with the Staff of the International Monetary Fund. The programme was underpinned by a package of policy measures geared towards fiscal and debt sustainability which was expected to lay the foundation for a stable macroeconomic environment and sustained growth.

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INDEPENDENT AUDITORS' REPORT

TO BANK OF JAMAICA

Report on the Financial Statements

Pursuant to Section 43(1) of the Bank of Jamaica Act, we have audited the financial statements of the Bank of Jamaica (the Bank), set out on pages iii to xlvi, which comprise the balance sheet as at December 31, 2009, the statements of comprehensive income, changes in capital and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the Bank's preparation and

INDEPENDENT AUDITORS' REPORT

TO BANK OF JAMAICA

Report on the Financial Statements (continued)

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2009, and of its financial performance, changes in capital and reserves and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Chartered Accountants
Kingston, Jamaica

March 29, 2010

BANK OF JAMAICA

Balance Sheet
December 31, 2009

	Notes	2009 J$'000	2008 J$'000
ASSETS			
Foreign assets:			
Notes and coins		18,154	10,884
Cash and cash equivalents	3	16,655,619	30,344,066
Interest in funds managed by agents		12,097,877	10,679,421
Investments	4	98,234,177	102,486,457
International Monetary Fund - Holding of Special Drawing Rights		29,383,464	5,965
Bilateral accounts		50,815	78,870
Total foreign assets		156,440,106	143,605,663
Local assets:			
Notes and coins		83,626	50,931
Loans and advances	5	22,076,865	19,834,196
Investments	6	111,496,761	87,270,422
International Monetary Fund – Quota subscription	7	4,138,110	3,598,145
Investment property	8	510,799	94,645
Due from Government and Government Agencies	9	-	4,244,418
Property, plant and equipment	10	3,185,847	1,845,434
Intangible assets	11	137,067	149,394
Employee benefits asset	12	3,258,900	2,684,100
Other	13	4,590,798	3,297,891
Total local assets		149,478,773	123,069,576
Total assets		305,918,879	266,675,239

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Balance Sheet (Continued)
December 31, 2009

	Notes	2009 J$'000	2008 J$'000
LIABILITIES, CAPITAL AND RESERVES			
Liabilities:			
Notes and coins in circulation	14	51,892,515	49,017,868
Deposits and other demand liabilities	15	94,046,140	70,354,680
Open market liabilities	16	104,394,286	127,979,788
International Monetary Fund -			
Allocation of Special Drawing Rights	17	34,786,044	4,694,987
Foreign liabilities	18	15	34,877
Employee benefits obligation	12	407,600	1,357,200
Due to Government and Government Agencies	9	356,814	-
Other	19	11,200,222	8,129,948
Total liabilities		297,083,636	261,569,348
Capital and reserves:			
Share capital	20	4,000	4,000
General reserve fund	21	20,000	20,000
Special stabilisation account	22	648,342	607,894
Other reserves	23	8,162,901	4,473,997
Total capital and reserves		8,835,243	5,105,891
Total liabilities, capital and reserves		305,918,879	266,675,239

The financial statements on pages 3 to 46 were approved for issue by the Board of Directors on March 29, 2010 and signed on its behalf by:

____________________ Governor
Brian Wynter

____________________ Deputy Governor
Livingstone Morrison

____________________ Financial Controller
Herbert A. Hylton

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Comprehensive Income
Year ended December 31, 2009

	Notes	2009 J$'000	2008 $'000
Operating income:			
Interest	24	23,685,290	17,231,347
Foreign exchange gain, net	25	12,066,087	15,000,475
Other		89,281	61,337
Total operating income		35,840,658	32,293,159
Operating expenses:			
Interest	26	26,059,811	21,671,038
Staff costs	27	2,075,921	1,831,605
Currency expenses		971,206	943,984
Property expenses, including depreciation		637,386	579,494
Other operating expenses		596,631	552,867
Total operating expenses	28	30,340,955	25,578,988
Operating profit		5,499,703	6,714,171
Other gains/(losses):			
Pension, medical and life insurance	12	1,409,900	(1,146,700)
Impairment provision, net		572	1,453
Gain on remeasurement of staff loans and promissory note		(62,292)	-
Change in fair value of investment property	8	404,699	-
Gain on disposal of securities designated as available for sale		58,562	319,220
Gain on disposal of property, plant and equipment		3,256	15,478
Expenditure on behalf of Government of Jamaica not reimbursed	9	(27,146)	(121,937)
Profit for the year		7,287,254	5,781,685
Transferred from/(to) pension equalisation reserve	23(c)	(470,100)	694,700
Transferred to general reserve fund	9	6,817,154	6,476,385
Other comprehensive income:			
Change in value of property, plant and equipment		1,199,744	-
Change in fair value of available-for-sale securities		1,914,359	(134,918)
Other comprehensive income/(expense) for the year		3,114,103	(134,918)
Total comprehensive income for the year		9,931,257	6,341,467

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Changes in Capital and Reserves
Year ended December 31, 2009

	Share capital J$'000 (Note 20)	General reserve fund J$'000 (Note 21)	Special stabilisation account J$'000 (Note 22)	Other reserves J$'000 (Note 23)	Total J$'000
Balances at December 31, 2007	4,000	20,000	556,729	5,263,215	5,843,944
Total comprehensive income for the year:					
Profit or loss for the year	-	6,476,385	-	-	6,476,385
Other comprehensive income:					
Change in fair value of available-for-sale securities	-	-	-	(134,918)	(134,918)
Total other comprehensive income	-	6,476,385	-	(134,918)	6,341,467
Changes in reserves					
Profit due to consolidated fund (note 10)	-	(6,476,385)	-	-	(6,476,385)
Transfer from coins in circulation	-	-	51,165	-	51,165
Transfer of deficit on defined benefit pension scheme	-	-	-	(654,300)	(654,300)
	-	(6,476,385)	51,165	(654,300)	(7,079,520)
Balances at December 31, 2008	4,000	20,000	607,894	4,473,997	5,105,891
Total comprehensive income for the year:					
Profit for the year	-	6,817,154	-	-	6,817,154
Other comprehensive income:					
Change in value of property, plant and equipment	-	-	-	1,199,744	1,199,744
Change in fair value of available-for-sale securities	-	-	-	1,914,359	1,914,359
Total other comprehensive income	-	6,817,154	-	3,114,103	9,931,257
Changes in reserves:					
Profit due to consolidated fund (note 10)	-	(6,817,154)	-	-	(6,817,154)
Transfer from coins in circulation	-	-	40,448	-	40,448
Transfer of surplus on defined benefit pension scheme	-	-	-	574,801	574,801
	-	(6,817,154)	40,448	574,801	(6,201,905)
Balances at December 31, 2009	4,000	20,000	648,342	8,162,901	8,835,243

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Cash Flows
Year ended December 31, 2009

	Note	2009 J$'000	2008 J$'000
Cash flows from operating activities:			
Profit for the year		7,287,254	5,781,685
Adjustments for:			
Depreciation – property, plant and equipments	10	169,410	209,485
Amortisation – intangible assets	11	56,927	37,193
Gain on disposal of property, plant and equipment		(3,256)	(15,478)
Change in fair value of investment property		(404,699)	-
Employee benefits, net		(1,419,700)	1,084,800
Unrealised exchange gain		(10,221,557)	(12,796,606)
Subscription		(539,965)	(375,084)
Unrealised exchange loss on International Monetary Fund - Allocation of SDR's		30,091,057	489,424
Interest income	24	(23,685,290)	(17,231,347)
Interest expense	26	26,059,811	21,671,038
Operating profit before changes in other assets and other liabilities		27,389,992	(1,144,890)
Interest received		21,516,078	20,456,424
Interest paid		(22,956,989)	(16,133,776)
Other assets		(1,389,964)	(624,567)
Other liabilities		(32,548)	(82,635)
Due from Government and Government Agencies		32,917	(1,916,369)
Net cash provided by operating activities		24,559,486	554,187
Cash flows from investing activities:			
International Monetary Fund - Holding of Special Drawing Rights		(29,377,499)	16,095
Interest in funds managed by agents		(149,552)	(619,267)
Foreign currency denominated investments		12,918,416	1,638,137
Local currency denominated investments		(21,808,713)	(14,509,237)
Loan and advances		(2,242,669)	(19,834,196)
Addition to intangible asset		(44,600)	(59,387)
Additions to property, plant and equipment	10	(339,550)	(299,617)
Additions to investment property		(11,456)	(6,048)
Proceeds of disposal of property, plant and equipment		32,730	30,868
Net cash used by investing activities		(41,022,893)	(33,642,652)
Cash flows from financing activities:			
Notes and coins in circulation		2,915,095	1,889,205
Deposits and other demand liabilities		21,594,755	12,268,509
Open market liabilities		(23,585,502)	14,049,668
Foreign liabilities		(34,862)	(68,739)
Net cash provided by financing activities		889,486	28,138,643
Net increase in cash and cash equivalents		(15,573,921)	(4,949,823)
Cash and cash equivalents at January 1		30,405,881	32,713,718
Effect of exchange rate fluctuation on cash held		1,925,439	2,641,986
Cash and cash equivalents at December 31		16,757,399	30,405,881

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Statement of Cash Flows (Continued)
Year ended December 31, 2009

	Note	2009 J$'000	2008 J$'000
Cash and cash equivalents at December 31 comprise:			
Foreign notes and coins		18,154	10,884
Foreign cash and cash equivalents	3	16,655,619	30,344,066
Local notes and coins		83,626	50,931
		16,757,399	30,405,881

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA

Notes to the Financial Statements
December 31, 2009

1. Identification

Bank of Jamaica (hereafter "the Bank") was established under the Bank of Jamaica Act (hereafter "the Act") amended on December 8, 2004. The Bank is domiciled in Jamaica and its registered office is located at Nethersole Place, Kingston.

The principal objects of the Bank, as set out in the Act, are to issue and redeem notes and coins; to keep and administer the external reserves of Jamaica; to influence the volume and conditions of supply of credit so as to promote the fullest expansion in production, trade and employment, consistent with the maintenance of monetary stability in Jamaica and the external value of the currency; to foster the development of money and capital markets in Jamaica; and to act as banker to the Government of Jamaica.

2. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance:

The financial statements are prepared in accordance with the provisions of the Bank of Jamaica Act and International Financial Reporting Standards (IFRS) and their interpretations, adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation:

(i) Functional and presentation currency

The financial statements are presented in Jamaica Dollars (J$) which is the Bank's functional currency.

(ii) Basis of measurement

The financial statements are prepared on the historical cost basis, except for the inclusion of available-for-sale investments, investment property and certain classes of property, plant and equipment at fair value.

(iii) Estimates assumptions and judgements

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of and disclosure relating to assets, liabilities, contingent assets and contingent liabilities at the balance sheet date and the income and expenses for the year then ended. Actual results may differ from these estimates.

Accounting estimates and judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

- Pension and other post-retirement benefits

  The amounts recognised in the balance sheet and income statement for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(b) Basis of preparation (continued):

(iii) Estimates assumptions and judgements (continued)

- Pension and other post-retirement benefits (continued)

  The expected return on plan assets is assumed after considering the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the company's obligation. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

- Fair value of financial instruments

  In the absence of quoted market prices, the fair value of a significant proportion of the Bank's financial instruments was determined using a generally accepted alternative method. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

  It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

(c) Foreign currencies:

The rate of exchange of the Jamaica Dollar for the United States dollar is determined by the average of the weighted average rate at which the commercial banks trade in U.S. dollars and the rate at which the Bank itself buys US dollars. The rates of exchange for other currencies are derived from the US$ rate, thus determined, using rates published by the Federal Reserve Bank and the Financial Times.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rates prevailing at that date. Transactions in foreign currencies are translated at the foreign exchange rates ruling at the dates of those transactions.

Gains and losses arising on fluctuations in exchange rates are included in the income statement.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(d) Financial instruments:

(i) Classification of investments:

Management determines the classification of investments at the time of purchase and takes account of the purpose for which the investments were purchased. Investments are classified as loans and receivables and available-for-sale securities.

Loans and receivables are non-derivative financial assets acquired by the Bank with fixed or determinable payments and which are not quoted in an active market. An active market is one where quoted prices are readily and regularly available from an exchange, dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Loans and receivables are recognised on the day they are acquired by the Bank.

Other financial instruments held by the Bank are classified as available-for-sale. Available-for-sale instruments are recognised on the date the Bank commits to purchase the instruments.

(ii) Measurement:

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all available-for-sale investments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably determined, is stated at cost, including transaction costs, less impairment losses [note 2 (k)].

All non-derivative, non-trading financial liabilities and loans and receivables are measured at amortised cost, less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Based on the above guidelines, the Bank's investments are classified and measured as follows:

[i] Loans and advances are classified as loans and receivables and are stated at amortised cost, less provision for losses and impairment as appropriate.

[ii] Local currency denominated Government of Jamaica securities which do not have a quoted market price in an active market and whose fair values cannot be reliably determined, and interest-bearing deposits are stated at historical or amortised cost.

[iii] Local currency denominated Government of Jamaica securities with quoted prices in an active market are classified as available-for-sale and measured at fair value.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(d) Financial instruments (continued):

(ii) Measurement (continued):

[iv] US Government bonds are classified as available-for-sale and are measured at fair value.

(iii) Fair value measurement principles:

The fair value of financial instruments classified as available-for-sale is based on their quoted market price at the balance sheet date without any deduction for transaction costs. Where a quoted market price is not available, the fair value of the instrument is estimated using discounted cash flow techniques or a generally accepted alternative method.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions.

(iv) Gains and losses on subsequent measurement:

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is recognised in profit or loss.

(v) Cash and cash equivalents:

Cash and cash equivalents are shown at cost.

(vi) Other assets:

Other assets are stated at amortised cost, less impairment losses [note 2 (k)].

(vii) Other liabilities:

Other liabilities, including provisions, are stated at amortised cost.

(viii) Provision:

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(d) Financial instruments (continued):

(ix) Derecognition:

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets.

Loans and receivables are derecognised on the day they are transferred by the Bank.

(e) Property, plant and equipment:

(i) Owned assets:

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses [note 2 (k)], except for freehold land and buildings which are stated at market value.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and it can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

The market value of freehold land and building is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms' length transaction.

(ii) Depreciation:

Property, plant and equipment are depreciated on the straight-line basis at annual rates estimated to write down the assets to their residual value over their estimated useful lives. Leasehold property is amortised in equal instalments over the shorter of the lease term and the property's estimated useful life.

Land, works of art, statues and museum coins are not depreciated.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(e) Property, plant and equipment (continued):

(ii) Depreciation (continued):

The estimated useful lives are as follows:

Buildings	10 – 20 years
Leasehold property	Shorter of lease term and useful life
Furniture, plant and equipment	10 years
Computer equipment	5 years
Motor vehicles	5 years

The depreciation methods, useful lives and residual values are reassessed at the reporting date.

(f) Notes and coins in circulation:

The nominal value of numismatic coins sold is included in notes and coins in circulation. The net proceeds from such sales are included in the income statement.

Notes and coins in circulation is stated after a deduction of 25% of the value of coins in circulation in accordance with the Bank of Jamaica (Value of Coins in Circulation) Order 1973, as permitted under Section 22 of the Act. The deductions are credited to the special stabilisation account.

(g) Taxation:

Section 46 of the Act, which exempted the Bank from income tax, stamp duties and transfer tax, was repealed on December 23, 2003. The Bank is still exempt from income tax under Section 12(b) of the Income Tax Act. The Bank's supplies are substantially exempt from general consumption tax (GCT); it incurs GCT at standard rates on taxable supplies acquired.

(h) Employee benefits:

Employee benefits comprise all forms of consideration given by the Bank in exchange for service rendered by employees. These include current or short-term benefits such as salaries, NIS contributions, annual vacation leave, and non-monetary benefits such as medical care and life insurance; post-employment benefits such as pension and medical care; other long-term employee benefits such as termination benefits.

(i) General benefits:

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The estimated cost of accumulated vacation leave is recognised annually. Post-employment benefits are accounted for as described below.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(h) Employee benefits (continued):

(ii) Defined-benefit scheme and post employment benefits:

Employee benefits comprising pensions, and the related post-employment assets and obligation included in these financial statements, have been actuarially determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and gives the actuary's opinion. The actuarial valuations were conducted in accordance with IAS 19, and the financial statements reflect the Bank's post-employment benefit asset and obligations as computed by the actuary. In carrying out their audit, the auditors relied on the actuary's report.

The cost of pension benefits is the cost to the Bank of its administration of, and contributions to, the pension scheme established to provide retirement benefits and its payments to pensioners to supplement the basic pensions to which pensioners are entitled under the rules of the scheme (see note 12). The contributions are a percentage of the members' salaries; the percentage is determined by the scheme's actuaries using the *aggregate actuarial cost* method. Administration costs are charged when incurred, and supplemental payments are charged when paid.

The Bank's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That value is then discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at the balance sheet date on long-term government bonds with maturities approximating the terms of the Bank's obligation. The calculation is performed by a qualified actuary, using the *projected unit credit* method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of income and expenses on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in profit or loss.

To the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefits obligation and the fair value of plan assets, that portion is recognised in the statement of income and expenses over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(h) Employee benefits (continued):

(ii) Defined-benefit scheme and post employment benefits (continued):

Where the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Bank if it is realisable during the life of the plan, or on settlement of the plan liabilities.

(i) Statutory transfer of profits and losses:

Section 9 of the Act provides for each financial year's net income to be credited, or net loss charged, to the General Reserve Fund, and for the balance on the General Reserve Fund in excess of five times the Bank's authorised share capital to be transferred to the Consolidated Fund. Likewise, any losses not covered by reserves are required by the Act to be funded by Government out of the Consolidated Fund.

(j) Investment property:

Investment property is stated at fair value, determined by management based on an initial valuation by an independent registered valuator. Fair value is based on market value, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller, in an arms length transaction, after proper marketing with the parties acting knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the profit or loss statement. In carrying out their audit, the auditors relied on the valuators' report.

(k) Impairment:

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(k) Impairment (continued):

(i) Calculation of recoverable amount:

The recoverable amount of the Bank's investment in loans and receivables and other receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short-term duration are not discounted.

The recoverable amount of other receivables is the greater of their net selling price and fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss in respect of loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For all other assets, an impairment loss is reversed if there has been change in the estimate used to determine the recoverable amount.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

(l) Intangible asset

Intangible asset represents software and is measured at cost less accumulated depreciation and impairment losses. The asset is depreciated on a straight line basis at annual rate estimated to write down the asset to its residual value over its estimated useful life of 5 years.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(m) Adoption of new and revised IFRS and interpretations

Certain new IFRS and interpretations of, and amendments to, existing standards, which were in issue, came into effect for the current financial year.

The adoption of the following standards and amendments resulted in additional disclosures in the financial statements as described:

- *IAS 1 (Revised) Presentation of Financial Statements,* requires the presentation of all non-owners' changes in equity in one or two statements: either in a single statement of comprehensive income, or in an income statement and a statement of comprehensive income. The Bank has adopted a single statement of comprehensive income as shown on page 5.

- Amendments to *IFRS 7 Financial Instruments: Disclosures* require enhanced disclosures in respect of two aspects: disclosures over fair value measurement relating to financial instruments specifically in relation to disclosures over the inputs used in valuation techniques and the uncertainty associated with such valuations; and improving disclosures over liquidity risk to address current diversity in practice. The enhanced disclosures have been incorporated into note 32 where applicable.

New standards, and interpretations of and amendments to existing standards, that are not yet effective:

At the date of authorisation of the financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective and which the Bank has not early-adopted. The Bank has assessed the relevance of all such new standards, amendments and interpretations with respect to its operations and has determined that the following may be relevant to its operations:

- *IAS 39 (Amendment), Financial Instruments: Recognition and Measurement* becomes effective for annual reporting periods beginning on or after July 1, 2009. The amendment provided clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where:

  A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(m) Adoption of new and revised IFRS and interpretations (continued)

New standards, and interpretations of and amendments to existing standards, that are not yet effective (continued):

- IAS 39 (continued)

  The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. There is also the removal of a segment as an example of what may be considered a party external to the reporting entity. When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The Bank is assessing the impact the amendment will have on the 2010 financial statements.

- *IFRS 9, Financial Instruments,* is effective for annual reporting periods beginning on or after January 1, 2013. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The standard is not expected to have any significant impact on the 2013 financial statements.

(n) Related party balances and transactions:

A party is related to the Bank if:

(i) directly or indirectly the party:

- controls, is controlled by, or is under common control with the Bank;
- has an interest in the Bank that gives it significant influence over the Bank, or
- has joint control over the Bank;

(ii) the party is a member of the key management personnel of the Bank.

(iii) the party is a close member of the family of any individual referred to in (i) or (ii) above;

(iv) the party is a post-employment benefit plan for the benefit of employees of the Bank, or any entity that is a related party of the Bank.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

3. Cash and cash equivalents

	2009 J$'000	2008 J$'000
Current accounts and money at call with foreign banks	16,193,015	30,141,309
Current accounts with local banks	462,604	202,757
	16,655,619	30,344,066

4. Foreign currency denominated investments

	2009 J$'000	2008 J$'000
Available-for-sale securities:		
US Government bonds	50,201,809	45,070,438
Barbados Government bond	46,385	48,385
	50,248,194	45,118,823
Loans and receivables:		
Short-term deposits with foreign banks	47,985,983	57,367,634
	98,234,177	102,486,457

5. Loan and advances

The Bank granted loans and advances to certain financial institutions. These loans are collaterised by securities issued or guaranteed by the Government of Jamaica.

	2009 J$'000	2008 J$'000
Denominated in Jamaica dollars	6,339,000	3,057,000
Denominated in United States dollars	15,737,865	16,777,196
	22,076,865	19,834,196

At the balance sheet date, the fair value of the securities obtained and held by the Bank was $28,225,522,000 (2008: $23,122,941,000).

All loans and advances mature within twelve months after the balance sheet date.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

6. Local currency denominated investments

	2009 J$'000	2008 J$'000
Loans and receivables:		
Jamaica Government Securities:		
Local registered stock	61,614,841	61,614,841
Available-for-sale securities:		
Jamaica Government Securities:		
Local registered stock	4,971,530	9,109,101
Treasury bills	3,376	31
Investment bonds	25,270,238	14,896,344
Investment debentures	12,990,313	726,592
Registered bonds	6,646,463	923,513
	49,881,920	25,655,581
	111,496,761	87,270,422

7. International Monetary Fund – Quota Subscription

This represents the portion of Jamaica's fee for membership of the International Monetary Fund (IMF), based on its quota, which was paid by the Bank (the other portion having been subscribed by the Government of Jamaica).

Quotas are reviewed every five years, when adjustments may be considered.

	SDR'000	2009 J$'000	2008 J$'000
Amount subscribed (net of reserve tranche of J$Nil):			
At beginning of year	31,125	3,598,145	3,223,061
Effect of exchange rate fluctuation	-	539,965	375,084
At end of year	31,125	4,138,110	3,598,145

8. Investment property

	2009 J$'000	2008 J$'000
At beginning of year	94,645	94,645
Additions	11,455	-
Change in fair value	404,699	-
At end of year	510,799	94,645

The property was revalued by C. D. Alexander Limited, registered independent valuator, having an appropriate recognised professional qualification and recent experience in the location and category of the property during the year. The carrying amount of the investment property in the prior year is the fair value of the property arrived at by management, who took account of the location of the property. Direct operating expenses during the year were $6,525,303 (2008: $3,859,026).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

9. Due (to)/from Government and Government Agencies

	2009					
		Movements during the year				
	Dec. 31, 2008 J$'000	Advances/ losses J$'000	(Settlement)/ profit J$'000	Charged to expenses J$'000	Provision J$'000	Dec. 31, 2009 J$'000
Expenditure on behalf of Government:						
Payment of interest on foreign liabilities [see (b) below]	-	27,146	-	(27,146)	-	-
Other expenditure on behalf of Government	35,215	-	-	-	(32,917)	2,298
Withholding tax refund due	10,079,434	-	-	-	-	10,079,434
Accrued interest on Government securities	3,354,510	5,603,349	(3,354,510)	-	-	5,603,349
Net profit payable to Consolidated Fund	(9,224,741)	(6,817,154)	-	-	-	(16,041,895)
	4,244,418	(1,186,659)	(3,354,510)	(27,146)	(32,917)	(356,814)

	2008				
		Movements during the year			
	Dec. 31, 2007 J$'000	Advances/ losses J$'000	(Settlement)/ profit J$'000	Charged to expenses J$'000	Dec. 31, 2008 J$'000
Expenditure on behalf of Government:					
Payment of interest on foreign liabilities [see (b) below]	-	121,937	-	(121,937)	-
Other expenditure on behalf of Government	35,227	-	-	(12)	35,215
Withholding tax refund due	8,163,053	1,916,381	-	-	10,079,434
Accrued interest on Government securities	6,303,253	3,354,510	(6,303,253)	-	3,354,510
Net profit payable to Consolidated Fund	(2,748,356)	(6,476,385)	-	-	(9,224,741)
	11,753,177	(1,083,557)	(6,303,253)	(121,949)	4,244,418

(a) By virtue of Section 36 of the Act, the Bank is empowered to make advances to the Government up to thirty percent of the estimated revenue of Jamaica for that financial year of the Government, which are to be repaid within three months after the financial year. Where advances are not duly repaid, the power of the Bank to grant further advances in any subsequent financial year is not exercisable until the outstanding advances are repaid.

During November and December 2009, the Bank extended credit to the Government by way of temporary advances as well through participation in two primary issues of securities. The amount advanced in November was $5.1 billion of which $2.5 billion was repaid in December. The remaining $2.6 billion was converted to securities. The Bank also purchased a total of $18 billion in securities from two Government public offers on December 15, 2009.

(b) Interest on foreign liabilities comprises interest paid on Government of Jamaica foreign liabilities.

(c) Government is required by the Act to pay to the Bank, out of the Consolidated Fund, the losses incurred by the Bank. Section 9 (3) provides that if, in the opinion of the Minister, a payment to the Bank to clear the losses cannot be made from the Consolidated Fund, then such losses may be cleared by the issue to the Bank of securities charged to the Consolidated Fund.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

10. Property, plant and equipment

	Freehold land and buildings J$'000	Leasehold property J$'000	Furniture, plant and equipment J$'000	Motor vehicles J$'000	Work-in-progress J$'000	Total J$'000
Cost or valuation:						
December 31, 2007	1,301,790	9,308	1,126,353	220,960	21,169	2,679,580
Additions	37,032	4,556	89,443	137,611	30,975	299,617
Transfers	-	-	9,822	-	(9,822)	-
Disposals/write-offs	-	-	(26,417)	(59,710)	-	(86,127)
December 31, 2008	1,338,822	13,864	1,199,201	298,861	42,322	2,893,070
Additions	116,623	1,279	152,263	64,310	5,075	339,550
Revaluations	877,217	-	-	-	-	877,217
Transfers	-	-	38,138	-	(38,138)	-
Disposals/write-offs	-	(4,608)	(6,291)	(55,464)	-	(66,363)
December 31, 2009	2,332,662	10,535	1,383,311	307,707	9,259	4,043,474
At cost	-	10,535	1,383,311	307,707	9,259	1,710,812
At valuation	2,332,662	-	-	-	-	2,332,662
	2,332,662	10,535	1,383,311	307,707	9,259	4,043,474
Depreciation:						
December 31, 2007	255,462	2,372	605,519	45,534	-	908,887
Charge for the year	67,057	1,105	90,970	50,353	-	209,485
Eliminated on disposals	-	-	(26,417)	(44,319)	-	(70,736)
December 31, 2008	322,519	3,477	670,072	51,568	-	1,047,636
Charge for the year	-	1,046	109,337	59,027	-	169,410
Elimination on revaluation	(322,519)	-	-	-	-	(322,519)
Eliminated on disposals	-	(1,105)	(3,168)	(32,627)	-	(36,900)
December 31, 2009	-	3,418	776,241	77,968	-	857,627
Net book values:						
December 31, 2009	2,332,662	7,117	607,070	229,739	9,259	3,185,847
December 31, 2008	1,016,303	10,387	529,129	247,293	42,322	1,845,434
December 31, 2007	1,046,328	6,936	520,834	175,426	21,169	1,770,693

The Bank's land and buildings were revalued in 2010 by The C. D. Alexander Company Realty Limited, Real Estate Broker, Appraiser and Auctioneer on the open-market, existing-use basis. The surplus arising on revaluation, inclusive of depreciation no longer required, is included in property revaluation reserve [note 23(b)].

Management is of the opinion that there was no significant change in the value of land and building between the valuation dates and the year end.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

11. Intangible asset

	Computer software J$'000	Work-in progress J$'000	Total J$'000
Cost or valuation			
December 31, 2007	295,344	4,327	299,671
Additions	6,319	53,068	59,387
December 31, 2008	301,663	57,395	359,058
Additions	44,600	-	44,600
Transfer	54,067	(54,067)	-
December 31, 2009	400,330	3,328	403,658
Amortisation:			
December 31, 2007	172,471	-	172,471
Charge for the year	37,193	-	37,193
December 31, 2008	209,664	-	209,664
Charge for the year	56,927	-	56,927
December 31, 2009	266,591	-	266,591
Net book values:			
December 31, 2009	133,739	3,328	137,067
December 31, 2008	91,999	57,395	149,394
December 31, 2007	122,873	4,327	127,200

12. Employee benefits

The Bank operates a non-contributory defined benefit pension, medical, and life insurance schemes for all its permanent eligible employees and funds supplemental retirement benefits, except as set out at (e) below. Benefits under the pension scheme are computed by reference to final salary. The assets of the scheme, which are held separately from those of the Bank, are under the control of a board of trustees, with day-to-day management by employees of the Bank.

(a) Pension assets recognised on balance sheet:

	2009 J$'000	2008 J$'000
Present value of funded obligations	(2,788,900)	(2,406,300)
Fair value of plan assets	8,976,200	7,748,000
Unrecognised amount due to limitation	-	(1,129,700)
Liability in respect of unfunded benefits [12(b)(i)]	(1,019,000)	-
Unrecognised actuarial gains	(1,909,400)	(1,527,900)
Recognised assets	3,258,900	2,684,100

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

12. Employee benefits (continued)

(a) Pension assets recognised on balance sheet (continued):

(i) Movements in the present value of defined benefit obligations:

	2009 J$'000	2008 J$'000
Balance at beginning of year	2,406,300	2,384,300
Benefits paid	(188,200)	(151,200)
Service and interest costs	796,700	411,100
Actuarial gain	(225,900)	(237,900)
Balance at end of year	2,788,900	2,406,300

(ii) Movements in plan assets:

	2009 J$'000	2008 J$'000
Fair value of plan assets at January 1	7,748,000	6,846,400
Contributions paid	104,700	40,400
Expected return on plan assets	1,155,900	814,900
Benefits paid	(188,200)	(151,200)
Actuarial gain	155,800	197,500
Fair value of plan assets on December 31	8,976,200	7,748,000

Plan assets consist of the following:

Government of Jamaica securities	8,570,400	7,140,458
Certificates of deposit	-	160,000
Real estate	58,000	58,000
Other	347,800	389,542
	8,976,200	7,748,000

(iii) (Credit)/expense recognised in the statement of comprehensive income:

	2009 J$'000	2008 J$'000
Current service costs	124,700	98,200
Interest on obligations	672,000	312,900
Expected return on plan assets	(1,155,900)	(814,900)
Past service cost	400	300
Changes in disallowed assets	(1,129,600)	1,129,600
Net actuarial gain recognised	(700)	(31,400)
	(1,489,100)	694,700
Actual return on pension plan assets	6.03%	11.56%

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

12. Employee benefits (continued)

(a) Pension assets recognised on balance sheet (continued):

(iv) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2009 %	2008 %
Discount rate	16.0	16.0
Expected return on plan assets	15.0	15.0
Future salary increases	12.0	12.0

The overall expected long-term rate of return of assets is 15% (2008:15%). The expected long-term rate of return is based on an inflation rate of 10% (2008:10%).

(v) Historical information

Defined benefit pension plan

	2009 J$'000	2008 J$'000	2007 J$'000	2006 J$'000	2005 J$'000
Present value of the defined benefit obligation	(2,788,900)	(2,406,300)	(2,384,300)	(2,187,500)	(1,638,700)
Fair value of plan assets	8,976,200	7,748,000	6,846,400	6,051,300	5,326,300
Surplus in plan	6,187,300	5,341,700	4,462,100	3,863,800	3,687,600
Experience adjustments arising on plan liabilities	321,000	(345,500)	(321,100)	(384,800)	(278,000)
Experience adjustments arising on plan assets	155,800	197,500	180,900	195,000	682,600

(b) Post-retirement obligations:

(i) Liability recognised in balance sheet:

	2009 J$'000	2008 J$'000
Present value of obligation	2,205,100	1,964,800
Unrecognised actuarial gains/(losses)	(749,400)	(596,500)
Liability in respect of unfunded obligation transferred to pension scheme [12(a)]	(1,019,000)	-
Unrecognised past services costs non-vested benefits	(29,100)	(11,100)
Net liability recognised in balance sheet	407,600	1,357,200

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

12. Employee benefits (continued)

(b) Post-retirement obligations (continued):

(ii) Movement in present value of defined benefit obligation:

	2009 J$'000	2008 J$'000
Balance at beginning of year	1,964,800	2,363,900
Interest cost	54,500	311,900
Current service cost	15,500	50,300
Past service costs	27,700	17,300
Benefits paid	(9,800)	(61,900)
Actuarial gain losses	152,400	(716,700)
Balance at end of year	2,205,100	1,964,800

(iii) Expense recognised in the income statement:

	2009 J$'000	2008 J$'000
Current service costs	15,500	50,300
Interest on obligations	54,500	311,900
Past service costs	10,000	6,400
Net actuarial gain recognised in the year	(700)	83,400
	79,300	452,000

(iv) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2009 %	2008 %
Discount rate	16.0	16.0
Medical claims growth	15.0	15.0

Assumptions regarding future mortality are based on the PA (90) mortality table for pensioners (British mortality tables), but with each age rated down by six years.

(v) Historical information

Post-employment medical benefits

	2009 J$'000	2008 J$'000	2007 J$'000	2006 J$'000	2005 J$'000
Present value of obligations	2,205,100	1,964,800	2,361,500	1,443,900	1,069,600
Experience adjustments arising on plan liabilities	152,400	(59,400)	(35,800)	(30,100)	78,300

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

12. Employee benefits (continued)

(c) Assumed trend in health care cost has a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed health care cost trend rates would have the following effects:

	One percentage point increase J$'000	One percentage point decrease J$'000
Effect on the aggregate service and interest cost	15,800	(11,900)
Effect on the defined benefit obligation	118,100	(90,200)

(d) The estimated pension contributions expected to be paid into the plan during the next financial year is J$124,100,000 (2008: J$58,220,000).

(e) The Bank granted increases to pensioners as a supplement to the pensions paid by the scheme. An actuarial valuation disclosed that for the scheme to take over these supplemental payments currently being paid by the Bank, in addition to increases proposed with effect from December 31, 2001, a special contribution of J$168,700,000 would be required from the Bank as of the valuation date. No provision for this lump sum amount is included in the financial statements.

In addition, the Bank granted a further supplement to pensioners which amounted to J$13,496,424 for the year (2008: J$54,616,171), all of which has been included in staff costs in profit or loss.

13. Other assets

	2009 J$'000	2008 J$'000
Items in process of collection	69,365	1,439
Overdrafts	49	7,828
Staff loans	1,378,270	1,201,778
Ex-staff loans	61,787	81,612
Stock of unissued notes and coins	2,060,176	1,572,239
Accrued interest receivable other than on GOJ securities	594,540	585,944
Promissory notes	5,832	27,625
Other	1,039,355	366,447
	5,209,374	3,844,912
Less:		
Re-measurement of promissory note	(2,326)	(3,680)
Re-measurement of staff loans	(594,029)	(531,736)
Provision for loan loss for ex-staff loans	(11,606)	(11,605)
Provision for Sugar Company of Jamaica	(10,615)	-
	4,590,798	3,297,891

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Notes to the Financial Statements (Continued)
December 31, 2009

14. Notes and coins in circulation

	2009 J$'000	2008 J$'000
Notes	49,947,488	47,194,187
Coins	1,945,027	1,823,681
	51,892,515	49,017,868

Section 21 of the Act requires the Bank to hold specified assets of an amount in value sufficient to cover the value of the total amount of notes and coins in circulation as defined in that section. The assets held shall include, *inter alia*, (a) gold; (b) "hard currency" cash, bank balances or securities issued by a foreign government or international financial institution of which Jamaica is a member; or (c) Special Drawing Rights. Specified assets held by the Bank, as at December 31, 2009, were 2.44 (2008: 2.93) times the value of notes and coins in circulation at that date.

Coins in circulation are shown net of a reserve of 25% (note 22).

15. Deposits and other demand liabilities

	2009 J$'000	2008 J$'000
Government and Government agencies	6,304,259	4,701,699
Commercial banks and specified financial institutions	83,792,649	58,700,048
International Money Fund	90,905	79,043
Others	3,858,327	6,873,890
	94,046,140	70,354,680
Jamaica dollar equivalent of foreign currency deposits	40,919,680	33,994,248
Jamaica dollar deposits	53,126,460	36,360,432
	94,046,140	70,354,680

Deposit liabilities of the Bank include cash reserves held in connection with the Bank's supervision of the prudential requirements of commercial banks and specified financial institutions under the provisions of Section 28 of the Act, Section 14 of the Banking Act, Section 14 of the Financial Institutions Act and Section 31 of the Building Societies Regulations.

In relation to its management of liquidity in the financial system, the Bank may, under Section 28A of the Bank of Jamaica Act, require commercial banks and specified financial institutions to make special deposits with it in the form of cash or specified securities. Cash so deposited is also included in deposit liabilities of the Bank; securities so deposited are, however, excluded from the Bank's liabilities, as title is not transferred and the Bank merely holds them in safekeeping. At the balance sheet date, the Bank was not holding any specified securities in lieu of cash deposits.

At the balance sheet date, the following obtained:

	2009 J$'000	2008 J$'000
Amounts included in deposit liabilities of the Bank, representing statutory reserves	47,961,327	37,768,409

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

16. Open market liabilities

As part of the process of controlling liquidity in the financial system, the Bank acquires funds from or makes funds available to financial institutions and this is effected by entering into short-term agreements with the institutions. Receipt of funds is evidenced by the Bank issuing, to the depositor, Certificates of Deposit.

17. International Monetary Fund - Allocation of Special Drawing Rights

This represents the Bank's obligation for Special Drawing Rights (SDRs) allocated to it. This allocation does not change unless there are cancellations or further allocations.

		2009	2008
	SDRs'000	J$'000	J$'000
At beginning of year	40,613	4,694,987	4,205,563
Allocation received during the year	221,031	29,386,317	-
Effect of exchange rate fluctuation	-	704,740	489,424
At end of year	261,644	34,786,044	4,694,987

18. Foreign liabilities

	2009	2008
	J$'000	J$'000
Borrowings - Principal	-	34,241
- Accrued interest	-	622
Other accrued interest	15	14
	15	34,877

19. Other liabilities

	2009	2008
	J$'000	J$'000
Interest payable	10,917,146	7,814,324
Staff and staff-related expenses	243,232	283,608
Other	39,844	32,016
	11,200,222	8,129,948

20. Share capital

Section 8 of the Act provides for the capital of the Bank to be J$4,000,000, which has been paid by the Government of Jamaica.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

21. General reserve fund

Section 9 of the Act provides that the Bank shall establish and maintain a General Reserve Fund:

(a) to which, at the end of each financial year, the net income for that year shall be transferred or the net losses charged;

(b) from which shall be paid to the Consolidated Fund the amount by which, at the end of the financial year, the balance thereon exceeds five times the Bank's authorised share capital;

(c) into which should be paid from the Consolidated Fund at the end of the financial year, the amount by which the Bank's net loss exceeds the balance in the General Reserve Fund.

22. Special stabilisation account

The special stabilisation account is maintained at 25% of the coins in circulation as a reserve against coins that are unlikely to be redeemed (note 14).

23. Other reserves

This represents the following:

	2009 J$'000	2008 J$'000
Securities revaluation reserve [see (a)]	2,582,590	668,230
Property revaluation reserve [see (b)]	2,321,411	1,121,667
Pension equalisation reserve [see (c)]	3,258,900	2,684,100
	8,162,901	4,473,997

(a) This represents the unrealised gains/losses on the revaluation of available-for-sale investments securities.

(b) The property revaluation reserve represents the surplus arising on the revaluation of certain freehold properties (see note 10).

(c) The pension equalisation reserve represents the pension surplus arising on the actuarial valuation, under IAS 19, of the Bank's pension scheme. Annual changes in the value of the scheme are shown in the statement of comprehensive income, then transferred to this reserve.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

24. Interest income

	2009 J$'000	2008 J$'000
Loans and receivable		
Cash and cash equivalents	45,454	438,620
Funds managed by agents	224,225	302,024
Investment securities	1,573,569	3,170,942
Loans and advances	2,037,364	175,105
Other	49,733	56,777
Available-for-sale		
Investment securities	19,754,945	13,087,879
	23,685,290	17,231,347

25. Foreign exchange gain, net

	2009 J$'000	2008 J$'000
Net unrealised gain on translation of foreign currency assets and liabilities and realised gain on settlement of foreign assets and foreign liabilities	13,787,267	15,235,061
Exchange loss on purchases and sales of foreign currency	(1,721,190)	(234,586)
	12,066,087	15,000,475

26. Interest expense

	2009 J$'000	2008 J$'000
Certificates of deposit	22,443,436	13,510,403
Government and Government agencies	799,026	910,439
Commercial banks and specified financial institutions	2,816,138	7,243,775
Other	1,211	6,421
	26,059,811	21,671,038

27. Staff numbers and costs

The number of employees at the end of the year was 492 (2008: 483) full-time and 97 (2008: 21) contract. The related costs for these employees were as follows:

		2009 J$'000	2008 J$'000
Salaries and wages		1,835,333	1,639,458
Statutory payroll contributions		98,278	95,168
Uniforms		20,872	5,096
Staff welfare		95,347	67,666
Staff development	26,091	24,217	
		2,075,921	1,831,605

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Notes to the Financial Statements (Continued)
December 31, 2009

28. Operating expenses

Operating expenses include the following charges:

	2009 J$'000	2008 J$'000
Depreciation (note 10)	169,410	209,485
Amortisation (note 11)	56,927	37,193
Auditors' remuneration	8,270	7,390
Payments for redundancies	127,398	79,783

29. Related party balances

The Bank has a related party relationship with its Board of Directors, the members of the Executive Council and the Bank of Jamaica pension scheme. Membership of the Management Council is limited to fifteen (15) persons.

The balance sheet includes balances, arising in the ordinary course of business with key management, as follows:

	2009 J$'000	2008 J$'000
Loans (included in note 13)	48,437	88,079

The interest rates applicable to the above loans range from 3% - 5%. In addition, a deemed taxable income is computed on the interest saved by virtue of the concessionary interest rate. No non-executive director receives emoluments or is in receipt of a loan from the Bank.

The statement of comprehensive income includes income earned from/expenses incurred in transactions with related parties, in the ordinary course of business, as follows:

	2009 J$'000	2008 J$'000
Interest expense – pension scheme	9,771	66,632
Interest income – Management Council	(2,585)	(2,310)
Pension contribution – pension scheme	126,307	104,507

Management Council compensation is as follows:

	2009 J$'000	2008 J$'000
Emoluments included in staff costs (note 27)	277,303	149,420

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

30. Commitments

At the balance sheet date the Bank had:

(a) Capital commitments as follows:

	2009 J$'000	2008 J$'000
Authorised and contracted	65,733	122,580
Authorised but not contracted	6,204	1,025
	71,937	123,605

(b) Operating lease commitments payable as follows:

	2009 J$'000	2008 J$'000
Within one year	9,489	6,914
Subsequent years	-	-
	9,489	6,914

31. Contingent liabilities

At December 31, 2009, the Bank was a defendant in various relatively minor suits claiming damages. The Bank is of the view that the claims are generally without merit and will not result in any significant losses to the Bank. There are no lawsuits pending with the Bank as plaintiff as at December 31, 2009.

32. Fair value of financial instruments

Fair value is the arm's length consideration for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties, who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

Determination of fair value:

The financial instruments held at the balance sheet date are: cash and cash equivalents, interest in funds managed by agents, loans and advances, foreign and local currency denominated investments, International Monetary Fund – Holding of Special Drawing Rights, due from Government and Government Agencies, other assets, deposits and other demand liabilities, open market liabilities, International Monetary Fund – Allocation of Special Drawing Rights, foreign liabilities and other liabilities.

The fair value of foreign and local currency denominated investments is assumed to be equal to the estimated market values as provided in notes 4 and 6, respectively. These values are obtained on the basis outlined in note 2(d)(iii). The ranges of interest rates used to discount estimated cash flows, where applicable, are based on the yield curves from the Bank and Bloomberg at the balance sheet date and were as follows:

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Notes to the Financial Statements (Continued)
December 31, 2009

32. Fair value of financial instruments (continued)

	2009 %	2008 %
Foreign currency denominated investment		
US$ bonds	0.75 – 5.83	30.02 – 5.89
Local Government of Jamaica securities		
Local registered stock	12.50 – 22.10	20.05 – 24.35
Treasury bills	16.28 – 16.39	23.24 – 23.75
Investment debentures	17.13 – 25.00	20.46 – 22.11
Investment bonds	16.94 – 22.68	23.28 – 23.63
Registered bond	12.75 – 21.50	22.40 – 26.38

The fair value of certain short-term financial instruments was determined to approximate their carrying value.

No fair value has been estimated on the amount due from Government and Government Agencies, as there is no practical means of estimating its fair value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2009				
Available-for-sale financial assets	50,248,194	49,881,920	-	100,130,114
December 31, 2008				
Available-for-sale financial assets	45,118,823	25,655,581	-	70,774,404

33. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued)

(a) Introduction and overview (continued)

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has established an Investment Committee which is responsible for providing oversight on the conversion of investment strategy into performance, portfolio construction and risk modelling. There is also a Credit Committee which is responsible for evaluating and approving applications for staff loans. Both committees report to the Management Council which reports on a regular basis to the Board of Directors.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit Department. This department undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(b) Credit risk

Credit risk is the risk of loss arising from a counter-party to a financial contract failing to discharge its obligations. This risk arises primarily from the Bank's foreign and local currency investment securities, loans and advances, cash and cash equivalents, interest in funds managed by agents and other assets.

(i) Management of credit risk on classes of financial assets exposed to that risk:

- Foreign currency investments and interest in funds managed by agents

  Credit risk in the foreign currency investment portfolio is managed by restricting the holdings of investments substantially to US Government securities, other highly rated sovereign securities, Jamaica Government US$ debentures and placements in highly rated supranational institutions. The Bank uses the credit rating ascribed by Moody's Investor Services and Standard & Poor Corporation as its main criterion for assessing the creditworthiness of financial institutions and sovereigns. The Bank's foreign investments are restricted to money market placements with financial institutions with minimum short-term credit ratings of A-1/P-2 and with minimum long-term ratings of Aa1/AA+. Additionally, capital market issues must have a minimum credit rating of Aa1/AA+. In order to reduce consolidated credit risk exposure, the Bank has investment limits in place. The Bank's foreign investment portfolio consists of short-, medium- and long-term investments each of which have stipulated percentage limits (upper and lower) of the portfolio at market value.

- Local investment securities

  Credit risk for local securities is managed by investing only in Government of Jamaica securities. Management does not expect this counterparty to fail to meet its obligations.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(b) Credit risk (continued)

(i) Management of credit risk on classes of financial assets exposed to that risk (continued):

- Loans and advances

  Credit risk is managed by requiring institutions to deposit with the Bank of Jamaica or its agents designated securities sufficient to collateralise loans and advances. The collateral value of securities accepted is limited to a defined percentage of market value.

- Cash and cash equivalents

  Cash and cash equivalents are held in financial institutions which management regards as strong and there is no significant concentration. The strength of these financial institutions is constantly reviewed by the Investment Committee.

- Other assets

  Other credit exposures consist mainly of staff loans for housing and motor vehicles. There is a documented credit policy in place which guides the Bank's credit process for staff loans. The policy includes established procedures for the authorisation of credit. Staff loans are limited to a percentage of the value of the assets being purchased. Additionally, assets must be insured and repayment terms established. Mortgages and liens are obtained for staff housing and motor vehicle loans, respectively.

(ii) Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan or securities agreements.

(iii) Past due but not impaired loans and securities

These are loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security available or the stage of collection of amounts owed to the Bank.

(iv) Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring. The Bank had no such loans as at December 31, 2009 and 2008.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(b) Credit risk (continued)

(v) Allowances for impairment

The Bank established an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The allowance is the aggregate of the estimated losses on individual exposures.

(vi) Write-off policy

The Bank writes off a loan or security balance (and any related allowances for impairment losses) when the Bank determines that the loans or securities are uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(vii) Exposure to credit risk

Current credit exposure is the amount of loss that the Bank would suffer if every counterparty to which the Bank was exposed were to default at once; this is represented substantially by the carrying amount of financial assets shown on the balance sheet.

Exposures to credit risk attached to financial assets are monitored through credit rating and lending limits, which are regularly reviewed. In addition, securities issued or guaranteed by the Government of Jamaica are required to collateralise advances to financial institutions.

There has been no change to the Bank's exposure to credit risk or the manner in which it manages and measures the risk.

The Bank's significant concentrations of credit exposure by geographical region (based on the region of ownership of the entity that issued the security or holds the cash or cash equivalents) are as follows:

	2009 J$'000	2008 J$'000
Caribbean	113,951,366	108,538,669
North America	137,987,399	105,923,170
Europe	24,033,957	41,195,507
Other	460,950	301,261
Total financial assets	276,433,672	255,958,607

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial liabilities as they fall due. Prudent liquidity management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed standby credit facilities to meet commitments.

The Bank's exposure to liquidity risk to meet foreign liabilities, as an institution, is limited due to the minimal amount owed to overseas creditors/lenders. Management of liquidity risk relates primarily to the availability of liquid foreign resources to sell to the Government of Jamaica and its agencies to repay their suppliers and lenders. The Bank manages this risk through a combination of:

- Budgetary procedures to identify the timing of Government foreign payments.
- Scheduling the maturity of foreign deposits to coincide with the demands of Government and its Agencies.
- Maintaining a portion of its foreign assets in cash or near cash as precautionary funds to meet unforeseen demands.

The Bank, like all central banks, has no real liquidity risk in relation to its domestic financial obligations.

The Bank is not subject to any imposed liquidity limit.

The following table presents the undiscounted contractual maturities of financial liabilities:

	2009				
	Within 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Deposits and other demand liabilities	94,046,140	-	-	-	94,046,140
Open market liabilities	20,063,324	43,502,174	40,828,788	-	104,394,286
Foreign liabilities	15	-	-	-	15
Other	11,200,222	-	-	-	11,200,222
Commitments	805	54,862	25,760	-	81,427
	125,310,506	43,557,036	40,854,548	-	209,722,090

	2008				
	Within 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Deposits and other demand liabilities	70,354,680	-	-	-	70,354,680
Open market liabilities	27,594,390	38,279,608	58,949,983	3,155,807	127,979,788
Foreign liabilities	-	34,877	-	-	34,877
Other	8,129,948	-	-	-	8,129,948
Commitments	875	8,009	121,635	-	130,519
	$106,079,893	38,322,494	59,071,618	3,155,807	206,629,812

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk exposures are measured using sensitivity analysis.

There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

Currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The Bank is exposed to foreign currency risk due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaica dollar. At the balance sheet date, the Bank's net exposure to foreign exchange rate fluctuations, in Jamaica dollar equivalent, was as follows, based on currencies in which balance sheet amounts are denominated:

	2009				
	US $'000	Euro $'000	Pound $'000	Other $'000	Total $'000
Foreign currency assets:					
Notes and coins	9,294	2,393	5,472	7,841	25,000
Cash and cash equivalents	11,983,301	448,770	1,838,599	1,922,345	16,193,015
Interest in funds managed by agents	12,097,877	-	-	-	12,097,877
Interest receivable on BHAs	416,664	-	2,013	1,949	420,626
Items in the process of collection	68,952	-	-	19	68,971
Investment securities	98,234,177	-	-	-	98,234,177
Loans and advances	15,737,865	-	-	-	15,737,865
IMF - Holding of special drawing rights	-	-	-	29,383,464	29,383,464
IMF - Quota subscription	-	-	-	4,138,110	4,138,110
Bilateral	-	-	-	50,815	50,815
	138,548,130	451,163	1,846,084	35,504,543	176,349,920
Foreign currency liabilities:					
Deposits current account	27,260,441	70,607	11,996,671	1,591,961	40,919,680
Deposits - IMF	90,905	-	-	-	90,905
IMF - Allocation of special drawing rights	-	-	-	34,786,044	34,786,044
Foreign liabilities	-	-	-	15	15
	27,351,346	70,607	11,996,671	36,378,020	75,796,644
Net foreign currency assets/ (liabilities)	111,196,784	380,556	(10,150,587)	(873,477)	100,553,276

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(d) Market risk (continued)

(i) Currency risk (continued)

	2008				
	US $'000	Euro $'000	Pound $'000	Other $'000	Total $'000
Foreign currency assets:					
Notes and coins	7,248	2,137	2,074	6,972	18,431
Cash and cash equivalents	23,823,308	244,025	4,156,188	2,120,545	30,344,066
Interest in funds managed by agents	10,679,421	-	-	-	10,679,421
Interest receivable on BHAs	492,672	-	2,869	-	495,542
Items in the process of collection	1,400	-	-	-	1,400
Investment securities	102,486,457	-	-	-	102,486,457
Loans and advances	16,834,969	-	-	-	16,834,969
IMF - Holding of special drawing rights	-	-	-	5,965	5,965
IMF - Quota subscription	-	-	-	3,598,145	3,598,145
Bilateral	-	-	-	78,870	78,870
	154,325,475	246,162	4,161,131	5,810,497	164,543,265
Foreign currency liabilities:					
Deposits current account	27,160,288	117,168	6,441,003	275,789	33,994,248
Deposits - IMF	79,043	-	-	-	79,043
IMF - Allocation of special drawing rights	-	-	-	4,694,987	4,694,987
Foreign liabilities	-	-	-	34,877	34,877
	27,239,331	117,168	6,441,003	5,005,653	38,803,155
Net foreign currency assets/ (liabilities)	127,086,144	128,994	(2,279,872)	804,844	125,740,110

Exchange rates at December 31:

	2009	2008
US$1 to J$	89.31	79.94
UK£1 to J$	144.22	116.87
CDN$1 to J$	85.19	65.31
€ to J$	128.14	111.27

At March 29, 2010, the exchange rates were US$1 to J$89.46, UK£1 to J$133.41, CDN$1 to J$87.13 and € 1 to J$119.41.

Sensitivity analysis

An eight percent (2008: eight percent) devaluation of the Jamaica Dollar against currencies which expose the Bank to risk at December 31 would have increased profit by $16,044,262 (2008: $10,059,208). However, a two percent (2008: two percent) revaluation of the Jamaica Dollar against currencies which expose the Bank to currency risk at December 31 would decrease profit by $2,011,066 (2008: $2,514,803). The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis for 2008.

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Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(d) Market risk (continued)

(ii) Interest rate risk:

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustments within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values. The Bank manages this risk by monitoring interest rates daily and ensuring that, even though there is no formally predetermined gap limits, to the extent practicable, the maturity profile of its financial assets is, at least, matched by that of its financial liabilities.

The following table summarises the carrying amounts of balance sheet assets, liabilities and equity to arrive at the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates.

	2009						
	Within 3 months J$'000	Three to 12 months J$'000	Over 12 months J$'000	Payable after notice J$'000	Non-rate sensitive J$'000	Total J$'000	Weighted average interest %
Assets							
Notes and coins	-	-	-	-	101,780	101,780	
Cash and cash equivalents	-	-	-	-	16,655,619	16,655,619	
Interest in funds managed by agents	-	-	-	12,097,877	-	12,097,877	1.62
Foreign currency denominated investments	47,985,983	-	50,248,194	-	-	98,234,177	1.52
International Monetary Fund - Holding of Special Drawing Rights	-	-	-	-	29,383,464	29,383,464	
Local currency denominated investments	3,576	10,100,161	101,393,024	-	-	111,496,761	
International Monetary Fund – Quota Subscription	-	-	-	-	4,138,110	4,138,110	
Investment property	-	-	-	-	510,799	510,799	
Loans and advances	19,857,537	2,219,328	-	-	-	22,076,865	
Property, plant and equipment	-	-	-	-	3,185,847	3,185,847	
Intangible assets	-	-	-	-	137,067	137,067	
Employee benefits	-	-	-	-	3,258,900	3,258,900	
Bilateral	-	-	-	-	50,815	50,815	
Other assets	-	-	-	-	4,590,798	4,590,798	
Total assets	67,847,096	12,319,489	151,641,218	12,097,877	62,013,199	305,918,879	1.53

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Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(d) Market risk (continued)

(ii) Interest rate risk (continued):

	2009						
	Within 3 months J$'000	Three to 12 months J$'000	Over 12 months J$'000	Payable after notice J$'000	Non-rate sensitive J$'000	Total J$'000	Weighted average interest %
Liabilities							
Notes and coins in circulation	-	-	-	-	51,892,515	51,892,515	
Deposits and other demand liabilities							
Jamaica dollar equivalent of foreign currency deposits	15,245,753	8,255,091	-	17,418,836	-	40,919,680	
Jamaica dollar deposits	22,351,818		-	30,774,642	-	53,126,460	
Open market liabilities	63,565,498	40,828,788	-	-	-	104,394,286	18.92
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	34,786,044	34,786,044	
Foreign liabilities	-	-	-	-	15	15	
Employee benefits obligation	-	-	-	-	407,600	407,600	
Due to Government and Government Agencies	-	-	-	-	356,814	356,814	
Other liabilities	-	-	-	-	11,200,222	11,200,222	
Capital and reserves	-	-	-	-	8,835,243	8,835,243	
Total liabilities	101,163,069	49,083,879	-	48,193,478	107,478,453	305,918,879	18.92
Total interest rate sensitivity gap	(33,315,973)	(36,764,390)	151,641,218	(36,095,601)	(45,465,254)	-	
Cumulative gap	(33,315,973)	(70,080,363)	81,560,855	45,465,254	-	-	

	2008						
	Within 3 months J$'000	Three to 12 months J$'000	Over 12 months J$'000	Payable after notice J$'000	Non-rate sensitive J$'000	Total J$'000	Weighted average interest %
Assets							
Notes and coins	-	-	-	-	61,815	61,815	-
Cash and cash equivalents	-	-	-	-	30,344,066	30,344,066	-
Interest in funds managed by agents	-	-	-	10,679,421	-	10,679,421	3.11
Foreign currency denominated investments	57,367,634	-	45,118,823	-	-	102,486,457	3.06
International Monetary Fund - Holding of Special Drawing Rights	-	-	-	-	5,965	5,965	15.53
Local currency denominated investments	508	5,758,841	81,511,073	-	-	87,270,422	-
International Monetary Fund – Quota Subscription	-	-	-	-	3,598,145	3,598,145	-
Investment property	-	-	-	-	94,645	94,645	-
Loans and advances	19,834,196	-	-	-	-	19,834,196-	
Due from Government and Government agencies	-	-	-	-	4,244,418	4,244,418	-
Property, plant and equipment	-	-	-	-	1,845,434	1,845,434	-
Intangible assets	-	-	-	-	149,394	149,394	-
Employee benefits	-	-	-	-	78,870	78,870	-
Bilateral	-	-	-	-	2,684,100	2,684,100	-
Other assets	-	-	-	-	3,297,891	3,297,891	-
Total assets	77,202,338	5,758,841	126,629,896	10,679,421	46,404,743	266,675,239	7.23

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(d) Market risk (continued)

(ii) Interest rate risk (continued):

	2008						
	Within 3 months J$'000	Three to 12 months J$'000	Over 12 months J$'000	Payable after notice J$'000	Non-rate sensitive J$'000	Total J$'000	Weighted average interest %
Liabilities							
Notes and coins in circulation	-	-	-	-	49,017,868	49,017,868	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	16,005,003	3,321,374	-	14,667,871	-	33,994,248	-
Jamaica dollar deposits	13,154,493	-	-	23,205,939	-	36,360,432	-
Open market liabilities	65,873,999	58,949,983	3,155,806	-	-	127,979,788	14.13
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	4,694,987	4,694,987	-
Foreign liabilities	-	-	-	-	34,877	34,877	8.02
Employee benefits obligation	-	-	-	-	1,357,200	1,357,200	-
Other liabilities	-	-	-	-	8,129,948	8,129,948	-
Capital and reserves	-	-	-	-	5,105,891	5,105,891	-
Total liabilities	95,033,495	62,271,357	3,155,806	37,873,810	68,340,771	266,675,239	6.96
Total interest rate sensitivity gap	(17,831,157)	(56,512,516)	123,474,090	(27,194,389)	(21,936,028)	-	
Cumulative gap	(17,831,157)	(74,343,673)	49,130,417	21,936,028	-	-	

Sensitivity Analysis

A change of 200 (2008:200) basis points in interest rates for Jamaica dollar financial instruments and a change of 25 (2008: 25) basis points for United States dollar financial instruments would have increased or decreased profit and equity by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Increase		Decrease	
	Effect on profit/loss	Effect on equity	Effect on profit/loss	Effect on equit
December 31, 2009				
Fixed rate financial instruments	-	(1,889,701)	-	412,893
Variable rate financial instruments	1,810,638	(162,153)	(1,810,638)	164,405
	1,810,638	(2,051,854)	(1,810,638)	577,298
December 31, 2008				
Fixed rate financial instruments	-	(144,179)	-	147,395
Variable rate financial instruments	1,647,644	(78,138)	(1,647,644)	78,963
	1,647,644	(222,317)	(1,647,644)	226,358

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
December 31, 2009

33. Financial risk management (continued):

(e) Capital management

The Bank's capital consists of ordinary share capital, general reserve fund, stabilisation reserve fund, securities revaluation reserve, property revaluation reserve and pension equalisation reserve. The share capital of the Bank may be increased by resolution of the Board of Directors. This resolution has to be approved by the House of Representatives. The Bank's net profit is transferred to the capital reserve fund. Whenever the credit in the reserve fund exceeds five times the authorised share capital such excess profit is paid to the Consolidated Fund. The Bank has been complying with this requirement. There were no changes in the Bank's approach to capital management during the year.

34. Subsequent event

In February 2010, the Bank voluntarily participated in the Jamaica Debt Exchange (JDX) transaction proposed by the Government of Jamaica. The JDX involved the par-for-par exchange of domestic debt instruments ("Old Notes") issued by the Government of Jamaica for new debt instruments ("New Notes") having lower interest rates and longer maturities. While all the Old Notes were callable by the Government of Jamaica, a majority of New Notes will be non-callable. The effective date of the exchange was February 24, 2010; interest accrued on the Old Notes up to, but excluding that date, was paid to holders net of applicable withholding taxes.

The Bank's acceptance of the debt exchange programme will impact on the amount and timing of expected future cash flows from the portfolio of investment in Government Instruments. The reduced cash flows from domestic investment income will however be partially offset by the reduction in domestic interest paid on the Bank's offerings of open market instruments which have experienced a corresponding fall in interest rates.

The impact of the Bank's participation in the JDX is summarized below:

Jamaican dollar denominated instruments:

	Pre JDX	**Post JDX**
Total face value exchanged portfolio (J$mn)	110,081.12	104,331.98
Securities settled outside the JDX (J$mn)	-	5,749.14
Weighted average coupon rate (%)	18.68	11.65

Maturity profile of investments

	Pre JDX J$mn	**Post JDX J$mn**
Within 1 year	10,005.17	4,002.07
Between 1 and 5 years	42,379.21	27,642.73
Over 5 years	56,696.74	72,687.18
	110,081.12	104,331.98

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Notes to the Financial Statements (Continued)
December 31, 2009

34. Subsequent events (continued)

US dollar denominated instruments:

The Bank had no holding of United States Dollar denominated instrument.

The fair value (carrying value) of the Old Notes exchanged exceeded the par-for-par of the New Notes received by $1,536.52 million. This excess, the difference between the acquisition cost of the securities and the market value, was set off against the balance on the Investment Valuation Reserve. At the Settlement Date all accrued income on the Old Notes was paid.

Impact of the JDX on pension fund valuation

The reduction in interest rates and a downward shift in the Jamaica sovereign debt yield curve will result in a concomitant reduction in the discount rate used to measure the Bank's obligations under its defined benefit pension benefit plan. The agreed discount rate used in the valuation at December 31, 2009 was 16%, a rate determined by the industry prior to the implementation of the JDX.

The Bank anticipates that the discount rate to be used for the 2010 valuation will be appreciably less than 16% but that rate has not yet been agreed. The Bank, in conjunction with its actuaries, is in the process of determining the impact of a reduction of the discount rate on both the accounting measurement of the pension asset and the funding of the pension scheme.

The profile of liquidity, credit and market risks of the Bank's domestic investment portfolio, presented in note 33, are based on the conditions existing on December 31, 2009. These profiles will change with the Bank's participation in the Jamaica Debt Exchange on February 24, 2010 and the consequential downward shift in the Jamaica sovereign debt yield curve.