BANK OF JAMAICA

Quarterly Monetary Policy Report

Press Conference

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Governor

Bank of Jamaica

20 February 2020

Ladies and gentlemen,

Good morning. **Yesterday we announced our decision to maintain the policy rate unchanged at 0.50 per cent per annum. This decision is effective today, 20 February 2020.**

My team of deputy governors and I are happy to be here to answer any questions you may have about yesterday's interest rate announcement and the Quarterly Monetary Policy Report (QMPR) but before I do that, let me provide some insight into what influenced our monetary policy decision.

Monetary Policy Decision

Our decision to hold the policy rate unchanged is based on our assessment that monetary conditions continue to be generally appropriate to support inflation remaining within the Bank's target of 4.0 per cent to 6.0 per cent over the next eight quarters. Recall that the Bank's inflation target was set by the Government to facilitate a faster pace of economic growth while at the same time supporting the country's ongoing debt reduction strategy.

I believe we are now seeing stronger signs that the Bank's accommodative monetary policy stance has been bearing fruit. As you know, the Bank has reduced the policy rate from 3.25 per cent per annum at the start of 2018 to the current level of 0.50 per cent. In response, we have seen that the deposit-taking institutions - that is, commercial banks, merchant banks and building societies (or DTI's for short) – have recorded strong growth in loans as well as marked reductions in lending rates on local currency loans. In particular, credit extended by DTIs to businesses grew by 20.3 per cent for the 12 months to December 2019, while credit provided to households grew by 16.5 per cent. This growth was notably faster than the expansions of 15.4 per cent and 12.0 per cent in credit to businesses and households, respectively, which was recorded in 2018. In addition to loans from DTIs, it is encouraging that a number of firms are obtaining financing from the issue of corporate bonds and equity.

This buoyancy in credit growth has not been reflected in the headline GDP growth numbers partly because of the recent fallout in mining and agriculture. However, non-mining GDP, which abstracts from the difficulties experienced in the mining sector, is trending upwards from 1.1 per cent for the September 2018 quarter to 1.4 per cent for the September 2019 quarter. This acceleration is being buoyed by marked increases in tourism and manufacturing. Additionally, an important leading indicator of economic activity, GCT tax inflows, suggest continued economic expansion.

Nonetheless, the economic expansion remains below the economy's capacity and it is largely for this reason that we believe inflation will average slightly below 5.0 per cent over the next eight quarters and why we have kept the accommodative monetary policy in place.

Inflation

I will now provide more details on inflation.

In STATIN's latest release, prices faced by consumers in Jamaica, on average, rose by 5.2 per cent for the year leading up to January 2020. This outturn represents a reduction from the 6.2 per cent recorded at December 2019 and reflects a return of inflation to the target range. You will recall we had previously indicated that the inflation spike in December 2019 was temporary. This slower pace of inflation in January 2020 mainly reflected the impact of lower electricity rates, some reversals in agricultural food prices as well as lower costs for petrol and air travel. Of note, price increases that exclude the influence of agricultural food and fuel prices (otherwise known as core or underlying inflation) remained low, just above 3.0 per cent for the year to January 2020.

Some moderation in the rate of increase in agricultural food prices is expected in February but we anticipate that headline inflation will be high for the month due to a temporary spike in electricity rates. Looking further ahead, Bank of Jamaica expects that the annual rate of consumer price increases will average about 4.7 per cent over the next eight quarters. This outlook for inflation is based on the stimulating effects of Bank of Jamaica's past monetary accommodation on prices, as well as imported inflation. The impact on inflation of these developments is expected to be partially offset by continued tight fiscal policy. I invite you to read the QMPR for additional details about the inflation forecast.

Risks to the Forecast

As I am sure you are aware, there are emerging risks within the global and domestic economy that could have implications for prices here in Jamaica, largely stemming from both weather-related concerns and global health epidemics. In particular, the effects of extreme weather conditions in Jamaica could result in increased volatility in agricultural prices. Higher inflation could also arise from imported inflation if global growth is stronger than anticipated in the context of easing international trade tensions between the USA and China. On the other hand, the continued spread of the novel coronavirus mainly poses a downside risk to inflation, as international oil prices would likely decline and global **and** domestic growth could be lower than expected.

Recent Developments in the Foreign Exchange Market

Ladies and gentlemen, before we open the floor to take your questions, I wish to provide you with a brief update on recent developments in the foreign exchange market.

For the calendar year to 19 February 2020, the Jamaica dollar has depreciated by 6.4 per cent (or $8.48) to close at J$141.05 = US$1.00. We wish to observe that the demand for - and the supply of - foreign exchange in the market is generally in balance, save and except for periodic bouts of extraordinary demand. The recent depreciating trend was mainly influenced by:

(1) bouts of large bloc demand associated with capital market or portfolio transactions;

(2) end-user demand associated with post-Christmas restocking; and

(3) authorised dealers increasing their net purchases of foreign currency in the market, having net sold foreign exchange in December.

The post-Christmas demand has been settled and dealers are now selling more to the market than what they buy but there remains some capital market transactions. Of note, the exchange rate has been appreciating over the past four days, a continuation of the two-way movement in the rate.

In the context of the increased volatility in the exchange market, on 22 January 2020, the BOJ introduced the Foreign Exchange Swap Arrangement, a new instrument intended to enhance the Bank's management of the foreign exchange market and provide USD liquidity to the system through authorized dealers. The Bank believes that, along with its usual B-FXITT operations, the FX swap arrangement will be a useful tool to smooth out excess volatility and restore orderly conditions in the market. Additionally, Bank of Jamaica is well advanced is rolling out a real-time trading platform for foreign currency.

With these initiatives, I want to stress that the onus is on all stakeholders, i.e. suppliers of FX, users of FX, authorised dealers and cambios, to ensure that the market functions efficiently and smoothly. The liberalisation of Jamaica's FX market is essential to our economic development but the benefits of this regime can only be realised if the private sector participants (i.e. banks and end-users) manage the market in a responsible way, particularly with respect to capital market transactions. BOJ has been in constant consultations with the dealers and other participants in the market and will continue this dialogue with the aim of ensuring that the market improves the way it operates.

Closing

Ladies and gentlemen, in closing, the prospects for the Jamaican economy continue to be generally positive. Foreign reserves are at adequate levels and we have been achieving the Government's targets for non-borrowed reserves. We have a sustainable current account of the balance of payments. Fiscal performance is strong, public sector debt continues to decline at a steady pace in line with the Fiscal Responsibility Law and our credit ratings have been upgraded. Jamaica's unemployment rate continues to improve and market interest rates remain generally low.

We continue to assess that the economy could grow at a faster pace without resulting in inflation increasing above the Bank's target. In this context, Bank of Jamaica has maintained its policy rate at 0.50 per cent but will closely monitor the impact this has on credit expansion, capital market transactions, overall economic activity and, consequently, the impact on inflation, to determine the appropriate future path for the policy rate. Thank you.