Monetary Policy Press Statement:
QMPR Press Conference

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Introduction

Good morning, ladies and gentlemen, and welcome to the Quarterly Monetary Policy Report press conference.

Over the past six weeks, we have witnessed an uncomfortable rise in COVID-19 cases, first among our main trading partners and more recently here in Jamaica. This has led to tightened restrictions on international and local movements. At the same time, hope has emerged as vaccination programmes are rolled out and the spike in new cases in North America moderate. These developments underscore Jamaica's continued vulnerabilities to the pandemic but also an opportunity to break out of the recession.

Against this backdrop, we are beginning to see signs of incremental improvement in economic activity, buoyant flows in the foreign exchange market, a sustainable balance of payments position, adequate reserves and inflation contained within the 4-6% corridor.

I will begin my remarks by outlining the most recent policy action taken by the Bank.

Monetary Policy Decision

On Tuesday, we announced our decision to maintain the policy rate at 0.50 per cent per annum. This decision was based on our assessment that inflation will continue to trend within the Bank's inflation target of 4.0 per cent to 6.0 per cent over the next two years. The Bank's accommodative policy posture is intended to support GDP growth and will remain so at least until there are clear signs that economic activity in Jamaica is returning to pre-COVID levels.

Inflation

The inflation rate for the 12 months leading up to January 2021, as released by the Statistical Institute of Jamaica, is 4.7 per cent, within the Bank's inflation target range and also below the 5.2 per cent recorded for the previous month. The deceleration in inflation is mainly related to dramatic fall in agricultural prices in January, following elevated prices in the December 2020 quarter. Core inflation (which excludes increases in agriculture and fuel prices) for the 12 months leading up to January 2021 was generally stable at about 3.5 per cent.

Overall, the Bank continues to be very successful in guiding inflation within the 4 - 6 per cent target range. Over the past 36 months (3 years) leading up to January 2021, inflation has been below 6.0 per cent (the upper bound of the target) on 34 occasions or 94 per cent of the time. The main reason for inflation going above target on the two occasions was temporary increases in agricultural prices due to either droughts or floods. On the flip side, inflation fell below the lower end of the target on 13 occasions over the period, again mainly due to volatility in agricultural prices as well as declines in international oil prices.

Going forward, Bank of Jamaica anticipates that annualized consumer prices will be as follows over the next three quarters:

March 2021	4.0 – 6.0 per cent
June 2021	4.0 – 5.0 per cent
September 2021	4.5 – 5.5 per cent

This outlook is lower than the one I shared with you in November 2020, a change that is primarily related the Bank’s updated view that agricultural price increases over this period will be smaller in the context of expected better weather conditions.

Beyond this horizon, our forecast is for inflation to remain comfortably within the target range of 4 to 6 per cent. The risks to the inflation forecast in the near-term (which is over the next year) are skewed to the downside, which means that inflation could be lower than we have highlighted here.

Recovery of the Jamaican Economy

I will now briefly expand on my earlier comment that the economy is beginning to show signs of recovery, even though the future remains clouded with much uncertainty. The most recent real GDP outturn published by STATIN indicated that domestic economic activity contracted by 10.7 per cent for the September 2020 quarter. This is an improvement relative to the June 2020 quarter, which saw a significant contraction of 18.4 per cent.

Another way to view this improvement is to consider the quarter over quarter change in de-seasonalised real GDP, again as reported by STATIN. Using this measure, the economy declined by 15.3 per cent in the June 2020 quarter relative to the previous quarter but **grew by 8.3 per cent for the September quarter when compared with the June 2020 quarter**.

The same pattern of improvement is evident in the labour market. The latest data released by STATIN indicated an unemployment rate of 10.7 per cent at October 2020, an improvement relative to the 12.6 per cent recorded at July 2020, but still up from 7.2 per cent recorded a year earlier. When account is taken of the seasonal patterns in employment, these statistics suggest that more than 40 thousand jobs were restored in the December quarter, following the COVID 19-related loss of close to 80 thousand jobs in the September quarter.

Loan growth has remained fairly resilient, with the stock of private sector loans and advances recording year-on-year growth of 11.5 per cent at November 2020 compared to growth of 16.5 per cent at February 2020. Although the pace of growth in loans has moderated, it remains above what we had expected in the context of the sharp fallout in economic activity, bolstered by continued demand for loans by businesses for working capital needs.

While the domestic financial system has also been impacted by the pandemic, it continues to remain resilient and sound. **Deposit- taking institutions' (DTIs) balance sheets indicate they are well capitalized and in compliance with prudent liquidity standards.** Loan quality for the system, while naturally showing a small deterioration, remains well below our threshold. BOJ is however keeping a watchful eye on the resolution of a substantial block of loans on moratorium.

The Bank continues to take steps to ensure that the financial system remains adequately funded. You may recall that the Bank had requested and received the commitment of Financial Holding Companies (FHCs) and DTIs to make only limited dividend distributions in May 2020 in an effort to encourage the preservation of DTIs capital in light of the pandemic. In December 2020, this understanding was further strengthened with the DTIs agreeing not to declare or pay any dividend over the next two quarters until June 2021. FHCs may declare dividends, however, the payment will be limited to shareholders owning 1 per cent or less of the outstanding shares in the FHC.

Ladies and gentlemen, we believe that the contraction in the Jamaican economy is past its worst and the outlook is for continued, albeit more gradual improvements in economic activity. Notwithstanding this improvement, the Bank continues to project that, for the full 2020/21 fiscal year, real GDP will contract in the range 10 per cent to 12 per cent. We further project that a partial rebound of at least 4 per cent in economic activity will commence in FY2021/22, and could possibly be as high as 8 per cent if there is a strong recovery in tourism. This projected growth in FY2021/22 represents a first step in getting the economy back to levels of economic activity observed prior to the COVID-19 pandemic, possibly in FY2022/23.

Developments in the Foreign Exchange Market

I will now turn to developments in the foreign exchange market. At 16 February 2021, the exchange rate was J$151.42 to US$1, representing a depreciation of 6.1 per cent for the calendar year to date. This pace of change is below the depreciation of 7.3

per cent recorded over the same period of last year and is consistent with the usual seasonal pattern of flows in the market. From an exchange competitiveness point of view, the Jamaican dollar has gained on average by 1.6% in 2020, relative to 2019.

From the perspective of our external accounts, notwithstanding the fallout in tourism flows, the current account deficit of the balance of payments is projected to deteriorate mildly from 1.6 per cent of GDP for FY2019/20 to 1.8 - 2.2 per cent of GDP for FY2020/21. While the performance of the CAD remains exemplary it must be viewed in the context of the low levels of economic activity. In particular, tourist arrivals fell dramatically over the year and imports (some of it related to the tourism trade) also fell significantly. Importantly, however, we also saw a dramatic improvement in remittance inflows which served to cushion the effects of the fallout in tourism on our balance of payments. Private capital outflows were also tempered by a reduction in capital market FX investments.

Overall, inflows into the foreign exchange market have remained healthy. Between March 2020 and January 2021, daily purchases of US dollars by authorised dealers and cambios from end users averaged US$31.2 million, slightly lower than the average of US$33.4 million recorded last year. Similarly, daily sales to end users averaged US$27.7 million over March 2020 to January 2021, slightly lower than the average of US$29.0 million a year earlier.

Where we identify temporary shortfalls in the market, we have intervened. Total B-FXITT flash sale operations since the onset of the crisis in March 2020 has amounted to US$381.0 million to date. The Bank has been judicious in its management of the country's reserves. At 16 February 2021, Jamaica's net international reserves remain healthy, amounting to just under US$3.0 billion, and we believe these reserves will be quite adequate to see us through this crisis.

Looking forward, over the next two years, the Bank projects that the current account deficit will remain at sustainable levels of about 2 – 4 per cent of GDP. This is supported by expectations for a partial recovery in tourism arrivals, driven in large part by successful phased vaccination programmes in key source markets and our assumption of careful control of community spread in Jamaica.

Ladies and gentlemen, these foreign exchange statistics, the gain in competitiveness of the Jamaican dollar and the outlook for the external accounts is in fact an opportunity for stakeholders to devote attention to driving meaningful export led growth and to accelerate the pace of import substitution.

Concluding Statement

Ladies and gentlemen, the duration of the global pandemic and the prospects for the Jamaican economy continue to be uncertain. Notwithstanding, the macroeconomic outlook that we have presented today suggests that we may be past the worst and the near-term outlook for the economy is for improvements in economic activity going forward. Bank of Jamaica will play its role in facilitating a sustainable economic recovery by maintaining its accommodative posture. The private sector also has a critical role to play, by being proactive in seeking out opportunities to encourage increased economic activity as we work together to recover from this pandemic. **The Bank will remain focussed on ensuring that inflation remains low, stable and predictable within the target range of 4.0 per cent to 6.0 per cent and will deploy additional measures, as needed, to ensure the continued smooth flow of liquidity to all participants in the financial system.**

Thank you.