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BANK OF JAMAICA

Monetary Policy Press Statement:

QMPR Press Conference

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Bank of Jamaica

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Introduction

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

Before I begin my remarks regarding the Bank's monetary policy decision and outlook for the economy, it is important to highlight that we have entered into a new paradigm of central banking in Jamaica with the implementation on 16 April 2021 of the Bank of Jamaica (Amendment) Act, 2020. This new law has refocussed the primary mandate of the Bank towards the maintenance of price stability while strengthening its governance, accountability and financial arrangements, in-line with international best practices. The Bank now has the authority, among other things, to make monetary policy decisions towards the attainment of the government's inflation target without any external influence. It will however be fully accountable to the public, through Parliament, for these decisions.

There have also been enhancements to our decision-making process. Monetary policy decisions will no longer be solely determined by the Governor of the Bank. They are now determined by a new five-member statutory committee called the Monetary Policy Committee (MPC).

In addition to the Governor as chairman, the MPC will comprise of two other ex-officio BOJ appointees. They are Senior Deputy Governor Wayne Robinson and Deputy Governor Robert Stennett. Further, I am pleased to recognize our two independent non-executive external committee members, Mr David Marston, former Senior Advisor and Deputy Director at the

International Monetary Fund and Dr Nadine McCloud, Head of the Department of Economics at the University of West Indies Mona Campus.

The decision announced yesterday was the first monetary policy decision of the MPC.

I would also like to highlight that on 16 April 2021, the Minister of Finance and the Public Service, in consultation with me, renewed the Bank's medium-term inflation target range at 4 per cent to 6 per cent for the next three fiscal years. Both the government and the Bank agreed that this 4 to 6 per cent target is the most appropriate inflation target for Jamaica at this time, given the principal objective of the Government to facilitate faster GDP growth while maintaining a tight fiscal posture in an effort to reduce the public debt burden to sustainable levels. The correspondences around this decision on the target are available on the websites of both the Ministry of Finance and the Public Service and the Bank of Jamaica.

Overview

Turning now to the economic environment and our monetary policy decision that was announced yesterday, we note that the COVID-19 pandemic continues to be a major hurdle for economic activity, both here in Jamaica and across the globe. There remains much uncertainty about how long this pandemic will last, despite positive developments relating to the global rollout of vaccination programmes. Here in Jamaica we have seen some tempering in the rate of virus spread in recent weeks but our economy will remain vulnerable to this pandemic until a significant proportion of the population has been vaccinated.

We are also beginning to see signs of incremental improvement in economic activity, including employment, inflows into the foreign exchange market, the balance of payments, reserves and importantly, inflation.

Against this background I will now speak to the most recent policy action taken by the MPC and the reasons for it.

Monetary Policy Decision

The MPC met on Friday May 14 and on Monday of this week and following the deliberations decided to maintain the policy rate at 0.50 per cent. This decision was based on the MPC's 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 MPC has maintained this highly accommodative monetary policy stance to support a speedy economic recovery and will continue to hold this posture, provided that there are no threats to inflation breaching the upper bound of the inflation target.

Inflation

The inflation rate for the 12 months leading up to April 2021, as released on Monday by the Statistical Institute of Jamaica, was 3.8 per cent, just below the lower end of the Bank's inflation target and lower than the 5.2 per cent recorded for March 2021. The deceleration in inflation was mainly related to a reduction in electricity rates. As required under the Bank of Jamaica Act, the Bank will provide a report to the Minister of Finance within the next 60 days explaining, among other things, the reasons for the inflation target for April being missed.

Core inflation (which excludes increases in agriculture and fuel prices) for the 12 months leading up to April 2021 was, however, 5.5 per cent up from 5.3 per cent in March. This increase was in part attributed to a rise in processed food inflation.

The Bank continues to be very successful in guiding inflation within the 4 - 6 per cent target range. Over the past 40 months leading up to April 2021, inflation has been below 6.0 per cent (which is the upper bound of the target range) on 38 occasions, or 95 per cent of the time. As I have said in the past, the main reason for inflation going above the 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 15 occasions over the period, again mainly due to volatility in agricultural prices as well as declines in international oil prices.

Going forward, the MPC anticipates that annualized consumer price inflation will evolve as follows over the next three quarters:

June 2021	3.5 – 4.5 per cent
September 2021	4.5 – 5.5 per cent
December 2021	3.5 – 4.5 per cent

This near-term outlook is lower than the one shared with you in February 2021, a change that is primarily related to the updated view of the

MPC that agricultural price increases over this period will be smaller than previously anticipated, given expectations for better weather conditions. Recently announced price increases for some processed foods, driven by higher imported commodity prices and shipping costs, have been taken into account beyond this horizon, our forecast is for inflation to remain within the target range of 4 to 6 per cent. Inflation is projected to average 4.8 per cent over the next two years, a forecast that anticipates that commodity (oil and grains) price inflation will not rise much beyond current levels. We anticipate that this will directly affect domestic transport and processed food inflation. In contrast, inflation is expected to be tempered by subdued domestic agricultural food price inflation. A resumption of domestic GDP growth and some imported inflation are projected to support moderately higher core inflation over the forecast period. The outlook for core inflation also contemplates the effects of one-off adjustments in selected regulated prices.

The risks to the inflation forecast are, however, skewed upwards. These upside risks, which could cause inflation to be higher, include a stronger than anticipated impact of international commodity prices on domestic prices. Lower than anticipated agriculture inflation in the June and September 2021 quarters is a downside risk.

Outlook for the Jamaican Economy

The most recent real GDP data published by STATIN indicated that domestic economic activity contracted by 8.3 per cent for the December 2020 quarter. This outturn represents another in a series of improvements, relative to the previous quarter. Using the quarter over quarter change in the seasonally adjusted real GDP, as reported by STATIN, the outturn for the December quarter relative to the September quarter reflected a growth of 0.9 per cent.

The same pattern of improvement continues to be evident in the labour market. The latest data released by STATIN indicated an unemployment rate of 8.9 per cent at January 2021, up by 1.5 percentage points compared to that recorded a year earlier. This, however, is an improvement relative to the 10.7 per cent recorded at October 2020. When account is taken of the seasonal patterns in employment, these statistics suggest that more than 25 thousand jobs were restored between October 2020 and January 2021, following the approximately to 40 thousand jobs that were added between July and October last year.

Ladies and gentlemen, while the GDP outturn for the December 2020 quarter has shown some 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 then expect a partial rebound of at least 5 per cent in economic activity to commence in FY2021/22, and could possibly be as high as 8 per cent, if there is a strong recovery in tourism and tourism-related activities.

It is likely that growth could trend towards the top-end of this forecast range, given the higher than anticipated pace of inoculations, the anticipated release of pent up vacation demand from this development and the impact of the significant fiscal and monetary stimuli in Jamaica’s major trading partner. The key downside risk to this growth projection relates to the domestic spread of the COVID-19 virus and the efforts to control it. If Jamaica's stringency measures have to be enhanced and protracted, retrenchment in travel and disruptions in the production and distribution of goods could occur.

Deposit-taking institutions' (DTIs) balance sheets continue to indicate that they are growing, properly capitalized and in compliance with prudent liquidity standards. Notwithstanding the moderating impact of the pandemic, loan growth for DTIs has remained fairly resilient, even though the pace of loan growth has slowed. The stock of private sector loans and advances recorded year-on-year growth of 8.8 per cent at March 2021, compared to growth of 15.8 per cent a year earlier.

Loan quality for the system, while naturally showing some weakening, remains well below our threshold for concern and is fully provided for by the system. You may also recall that banks have been affording their customers payment accommodation since the onset of the pandemic. A total of approximately $210 billion in payment accommodations had been provided over the period to date. However, as at February 2021, the outstanding stock of moratoria was $65 billion, reflecting a significant decline since the start of the pandemic.

In the context of the fall in the stock of loans under moratorium, the improving economic environment as well as the strong capacity of the financial system to absorb unexpected losses, Bank of Jamaica in April 2021 reached an agreement with Finance Holding Companies (FHC) and DTIs for the resumption of the distribution of dividends to large shareholders.

However, given that significant uncertainties associated with the pandemic remain, the Bank continues to urge financial institutions to remain prudent in their decision to declare and distribute dividends.

Developments in the Foreign Exchange Market

I will now turn to developments in the foreign exchange market. At 17 May 2021, the exchange rate was J$150.68 to US$1, representing a depreciation of 5.6 per cent for the calendar year to date. This pace of change is below the depreciation of 11.2 per cent recorded over the same period of last year and is consistent with the usual seasonal pattern of flows in the market.

It is noteworthy that confidence in the market-driven foreign exchange system is such that, even in a period of economic uncertainty, flows remain strong and any business or individuals in Jamaica that needs FX, can access it. For the calendar year to end-April 2021, daily purchases of US dollars by authorised dealers and cambios from end users averaged US$35.0 million, **higher** than the average of US$28.9 million recorded over the same period last year. Similarly, daily sales to end users averaged US$28.2 million since the start of 2021, above the average of US$25.2 million a year earlier.

Since March 2020, the Bank has purchased US$1.9 billion from the market via market surrenders which pays GOJ debt servicing and some energy imports. The Bank has also continued to intervene in the market when temporary shortfalls have been identified. Total B-FXITT flash sale operations since the onset of the crisis in March 2020 to date has amounted to US$411.0 million. At end April 2021, Jamaica's net international reserves remain healthy, amounting to US$3.3 billion.

Looking forward, over the next two years, the Bank projects that the current account deficit of the balance of payments will remain at sustainable levels of about 3 – 5 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.

Concluding Statement

Ladies and gentlemen, we are not yet completely 'out of the woods' as there continues to be a cloud of uncertainty regarding how long this global pandemic will last. Overall, the macroeconomic outlook, as envisaged by the MPC, points to an improvement relative to our previous assessment and continues to suggest that the near-term outlook for the economy is positive.

Bank of Jamaica, **through its newly formed Monetary Policy Committee,** will continue to play its role in facilitating a sustainable economic recovery by maintaining its accommodative posture while **remaining focussed on ensuring that inflation remains low, stable and predictable within the target range of 4.0 per cent to 6.0 per cent. The Bank will also deploy additional measures, as needed, to ensure the continued stability of the financial system.**

Thank you.