



**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. The local third wave of the COVID-19 pandemic appears to be receding and, with it, some of the government-mandated restrictions. These developments should support increased economic activity, which already is showing some strong positive signals in the form of rising employment levels, buoyant inflows into the foreign exchange market and strong reserves.

The outlook for inflation, however, remains a cause for concern.

With this brief background, I will now speak in further detail to the Bank's latest monetary policy decisions.

Monetary Policy Decisions

Since the previous meeting of the MPC when the policy rate was increased by 100 basis points to 1.5 per cent and other supporting measures were implemented, we have seen Jamaican dollar liquidity tighten, market interest rates rise and lending rates have either increased at the margin, or banks are planning to increase them. However, inflation expectations, as measured by our surveys, remain elevated and of concern.

The MPC met on Thursday and Friday of last week and voted unanimously to further increase the policy rate by 50 bps to 2.0 per cent, effective Wednesday of this week. The Committee also decided to maintain other measures to contain Jamaican dollar liquidity expansion and reiterated

that, while not targeting any specific level of the exchange rate, Bank of Jamaica will continue to ensure that movements in the exchange rate do not threaten the inflation target. Finally, consistent with meeting its inflation target sustainably in the medium term, the MPC agreed to consider further increases in the Bank's policy rate and to maintain or intensify the accompanying measures at subsequent policy meetings until inflation expectations are reduced and, consequently, the inflation outlook is solidly within the Bank's target range. This measured approach to monetary policy adjustments is consistent with international best practices and is designed to ensure that, in the context of the recovering economy, the Bank deploys the least possible disruptive policy adjustment to achieve its objective. It is important to emphasise that at current levels, real interest rates remain negative, and a significant impetus to economic growth.

The increase in interest rates, along with the other measures, will cause market-based interest rates to rise further, which will make the returns on Jamaican dollar savings more attractive relative to spending, and borrowing in Jamaican dollars more expensive. Combined with the tightening of Jamaican dollar liquidity available to banks, these measures are intended to temper the demand for foreign currency and hence moderate the pace of depreciation in the exchange rate. The measures will also reduce demand in the economy and with it the ability of businesses to pass on price increases to consumers.

Let me now go into more details about recent developments in inflation and the inflation outlook.

Inflation

As we are aware, the inflation rate for the 12 months leading up to October 2021, as released on Monday by the Statistical Institute of Jamaica, was 8.5 per cent, representing the third successive month that inflation has been above the Bank's target range of 4.0 to 6.0 per cent. The MPC has written to the Minister of Finance & the Public Service, as required by law, to explain the causes of the breaches, the measures that have been taken by the Bank to restore inflation to the target range and the short-term outlook for inflation.

Large increases in international commodity and shipping prices have been the principal contributor to domestic inflation rising above the target range. In addition, there were significant upward price impetuses from sharp increases to agricultural prices and one-off increases in regulated transportation and energy prices. These shocks have led to elevated inflation expectations and second-round movements in the prices of goods and services, like rental rates. The MPC's decision to further reduce the level of monetary policy accommodation is designed to limit the second-round effects of these shocks.

Going forward, the MPC anticipates that annualized consumer price inflation will continue to breach the upper limit of the Bank's target range over the next 10 months, from November 2021 to August 2022, and is projected to peak in the range 8.0 to 9.0 per cent over this period. This inflation forecast reflects the continued impact of higher international commodity and shipping prices on domestic processed food, services and energy price inflation. Past agricultural food price increases and increases

in regulated transportation fares and the electricity tariff will also support higher inflation over the next 10 months. With the tightening of monetary policy, we anticipate that headline inflation will return to the 4.0 to 6.0 per cent target range in the latter part of 2022.

The near-term risks to the inflation forecast are skewed to the upside. The main upside risks, which could cause inflation to be higher than projected, include higher than anticipated pass-through to domestic prices from international commodity prices and shipping costs and continued shocks to the supply of agricultural food. Additional upside risks include higher than projected inflation expectations which could impact price setting behaviour, further increases in regulated prices and higher than expected GDP growth which will drive increased demand. On the downside, a strong recovery in agricultural production could support lower food prices in the short-term.

Developments in the Foreign Exchange Market

In relation to the foreign exchange market, as at 17 November 2021, the exchange rate was J\$156.79 to US\$1, representing an annual point to point depreciation of 6.1 per cent. This is broadly similar to the pace of depreciation that occurred over the same period of last year.

Bank of Jamaica is of the view that, at current levels, the exchange rate is fairly valued and that the prospects for a stable market are good. Foreign currency flows continue to be healthy and businesses and individuals in Jamaica who require foreign exchange have been able to access it. For the calendar year to 17 November 2021, the daily purchases of US dollars by authorised dealers and Cambios averaged approximately

US\$36.0 million, higher than the average of US\$31.0 million recorded over the same period last year. At the same time, daily sales to end users over the same period averaged close to US\$35.0 million, above the \$27.0 million recorded a year earlier.

Bank of Jamaica has nonetheless continued to intervene in the market when temporary shortfalls between inflows to and outflows from the market have been identified. Total B-FXITT flash sale operations and direct sales to the energy sector for the calendar year to end-October amounted to US\$675.4 million.

At 17 November 2021, Jamaica's gross international reserves were substantial, amounting to US\$4.7 billion, and representing the equivalent of 143.8% of the level considered adequate. Looking forward over the next two years, the Bank projects that gross reserves will continue to remain healthy. This will be supported by a current account deficit of the balance of payments ranging between 1.0 and 3.0 per cent of GDP, a sustainable level by traditional measures. This reflects the earlier mentioned expectations for a recovery in tourist arrivals and spending.

Ladies and gentlemen, you may be aware that, in January 2020, one component of the Bank's net open position (NOP) regime in the form of the J\$8.0 billion cap was temporarily removed. This adjustment to the NOP regime facilitated greater liquidity in the foreign exchange market, especially during the height of the pandemic. The Bank has assessed the impact of this removal and concluded that the system is better served by the re-institution of the cap as it helps to constrain excessive volatility in the exchange rate.

Therefore, effective 06 December 2021, the cap will be restored and

will be adjusted from the \$8.0 billion limit to an asymmetric one corresponding to a \$4.5 billion limit for long NOP positions and a \$7.0 billion limit for short positions.

The Bank commits to continue reviewing these limits annually and to amending them if it is deemed necessary.

Outlook for the Jamaican Economy

The most recent real GDP data published by STATIN indicated that domestic economic activity expanded by 14.2 per cent for the June 2021 quarter, compared with the contraction of 6.7 per cent in the March 2021 quarter and 18.4 per cent a year earlier. This outturn represents another in a series of improvements relative to the previous quarter.

The labour market also continues on a path of improvement. The latest data released by STATIN indicated an unemployment rate of 8.5 per cent at July 2021, down by 4.1 percentage points compared to the rate at July 2020, when the economy was experiencing the early stages of the pandemic. Indeed, the country is just shy of pre-pandemic unemployment levels, with the rate at July 2021 standing at just 0.7 percentage point above the rate in July 2019.

Real GDP growth for FY2021/22 is projected to remain within the range of 7 to 10 per cent before moderating in the range of 2 to 4 per cent for FY2022/23, given the impact of stronger than expected improvements in the economies of Jamaica's main trading partners. The key drivers of this rebound are tourism and related sectors. Notwithstanding the outlook for continued growth, real GDP has been adversely impacted by a temporary

disruption to production at Jamalco as well as the recent adverse weather conditions. However, the Bank anticipates higher growth in the manufacturing, distribution and the transport, storage & communication sectors.

The risks to this growth forecast are balanced. A faster pace of growth can arise from a stronger rebound in tourism and related sectors, given the pace of vaccination in source markets and the pent-up demand for travel that exists. The main downside risk to growth however relates to the emergence of new variants of the COVID-19 virus and the accompanying measures to control it. If Jamaica's stringency measures are tightened and protracted, this could influence a slowdown in travel and disruptions in the production and distribution of goods.

Developments in the Financial Sector

Looking at the financial sector, deposit-taking institutions' (DTIs) balance sheets remain robust, adequately capitalized and in compliance with prudent liquidity standards. The pace of loan growth, while remaining positive, has continued to slow due to the moderating impact of the pandemic. The stock of private sector loans and advances recorded year-on-year growth of 7.9 per cent at August 2021, compared to growth of 16.5 per cent at February 2020 (prior to the crisis). At the same time, non-performing loans remain well below our threshold for concern and continue to be fully provided for by the system.

Concluding Statement

Ladies and gentlemen, I wish to reaffirm Bank of Jamaica's commitment to fulfilling its mandate of ensuring that a growth enabling macroeconomic environment is in place. This is characterised by inflation returning to and remaining within our inflation target range of 4 to 6 per cent. The outlook for inflation over the next two years, while being initially affected by external shocks from rising international commodity and shipping prices, is also at risk from rising inflation expectations. Bank of Jamaica's policy actions to further reduce monetary accommodation continues to be aimed at controlling this rise in inflation expectations and influencing a return of inflation to our target as soon as possible. It is important to emphasise that, through these actions, Bank of Jamaica is working to protect all Jamaicans...those on fixed salaries, those in the informal economy, those in businesses...and not any specific sector. The Bank will remain vigilant, closely monitoring the economic environment and stands ready to take further actions at subsequent policy meetings in order to achieve our inflation objective.

Thank you and I will now take questions.