

**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 Jamaican economy has been doing well. Real GDP grew faster in the December 2021 quarter than in the preceding quarter and there are signs that the economy continued to expand in the March 2022 quarter. In particular, STATIN reported that the unemployment rate fell to a historic low in January 2022, an exceptional performance by any measure.

However, the economy is not yet out of the woods. Right after we thought that the COVID-19 pandemic had receded, the World was rocked by the invasion of Ukraine by Russia. This conflict has fueled further significant increases in international commodity prices and has contributed to a substantial rise in global and domestic inflation. We are also seeing the emergence in Jamaica of another wave of the COVID-19 virus as infections and the positivity rate have been rising.

It is in this context that the central bank remains concerned about inflation, which has continued to track significantly above the upper end of the Bank's 4.0 per cent to 6.0 per cent inflation target.

There could however be some respite in sight, provided that geopolitical tensions do not escalate. While already high international commodity prices are expected to increase further over the next few months, the global consensus forecasts indicate that these prices will fall in the second half of 2022, influencing a decline in inflation among Jamaica's trading partners. Jamaica's inflation is expected to follow a similar pattern, rising in May and June but falling in the second half of the year. After carefully considering all the risks around this outlook, it is our view that Bank of Jamaica should continue its programme of monetary tightening until we have seen the projected turn in inflation materialize.

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

## Monetary Policy Decisions

The Bank's Monetary Policy Committee (MPC) met on 12, 13 and 18 May 2022 and voted to increase the policy rate by a further 50 bps to 5.00 per cent, effective 20 May 2022.

The Committee also decided to continue pursuing other measures to contain Jamaican dollar liquidity expansion and to maintain relative stability in the FX market. The MPC noted that the Bank's strong international reserves reinforces its ability to support the foreign exchange market, as needed.

This current decision has resulted in a cumulative increase in the policy rate of 450 basis points since October 2021 and has taken the policy rate close to the level that the Committee considers appropriate.

Complementing these policy rate increases, the Bank sold approximately US\$552 million to the foreign exchange market since October 2021, more than twice the amount of foreign exchange sold compared with the previous corresponding period. In addition, the Bank adjusted the Net Open Position limits for deposit taking institutions (or DTIs for short).

These policy actions contributed to the maintenance of stability in the exchange rate since the start of November last year, and has been critical in preventing inflation rising even further than it has. The policy actions have also led DTIs to commence adjusting interest rates on deposits and loans.

The Bank's current decision is based on its forecast for further increases in inflation over the next two months, before inflation begins to decline. This forecast is however conditional on our assumption that tensions between Russia and Ukraine do not escalate and inflation among Jamaica's trading partners fall.

The Bank expects that these measures will continue to cause interest rates on deposits and loans to rise further, making savings in Jamaican dollars more attractive, relative to foreign currency assets and borrowing in Jamaican dollars more expensive. In turn, these measures will help to reduce the demand for foreign currency, leading to continued stability in the exchange rate, and will reduce demand in the economy, limiting 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**

The inflation rate for the 12 months leading up to April 2022, as released last Tuesday by the Statistical Institute of Jamaica, was 11.8 per cent, representing the ninth consecutive month that inflation has been above the Bank's target range of 4.0 to 6.0 per cent. The Bank assesses that the direct and second round impact of the shock to international commodity prices accounted for approximately 75 per cent of domestic inflation at April.

Looking ahead, inflation is projected to peak in the range 12.0 to 15.0 per cent by June 2022 and to fall within the target range by the June 2023 quarter, consistent with the projections for a decline in international grains and energy prices during that period and with the Bank's monetary policy posture.

The near-term risks to the inflation forecast are assessed to be skewed to the upside, which means that actual inflation could be higher than the forecast. The factors that could cause higher inflation include a worsening in supply chain disruptions, and even higher commodity prices, should the Russia-Ukraine conflict deteriorate. The rebound of the economy and the demand that this brings for labour, may result in upward movements in wages and hence further upward movement in prices. On the downside, weaker than expected global growth could negatively impact domestic demand.

## **Outlook for the Jamaican Economy**

The most recent real GDP data published by STATIN continues to show improving economic activity, as real GDP grew even faster in the December 2021 quarter, compared with what we observed in the September 2021 quarter. For the year 2021/22 the Bank expects real GDP growth to be in the range of 7.0 per cent to 10.0 per cent. The labour market performance has also been exceptional, with the latest data from STATIN showing the unemployment rate falling to a historic low of 6.2 per cent at January 2022.

Looking ahead to 2022/23, real GDP growth is projected to moderate to the range of 2.0 per cent to 4.0 per cent. The Bank expects that this GDP growth will continue to be driven by the services industry, particularly tourism.

The forecast also assumes that production at one of Jamaica's main alumina plants, which had been temporarily closed, will resume operations by June 2022.

The risks to the growth forecast are skewed to the downside, suggesting the possibility of slower growth. Growth in tourist arrivals and related activities could be lower than projected, given the possibility of a 5th wave of the COVID-19 virus and the impact of efforts to control it, both internally as well as externally. External demand could be lower than anticipated due to the Russia-Ukraine conflict. The prospects of severe weather, in the context of the approaching hurricane season and climate change, also pose a downside risk to GDP growth. Finally, there is a risk that domestic consumption could be adversely affected by the high inflation rate.

### **Other Developments**

Since the start of the year, the foreign exchange market has remained relatively stable, reflecting, in part, the actions taken by the Bank in response to the higher than targeted inflation. Notwithstanding these actions, at 17 May 2022, Jamaica's gross international reserves remained substantial, amounting to approximately US\$4.3 billion. The Bank projects that the gross reserves will continue to remain adequate in the medium-term.

The deposit-taking institutions' (DTIs) balance sheets have remained adequately capitalized and in compliance with prudent liquidity standards. At the same time, non-performing loans remain well below our threshold for concern and continue to be fully provided for by the DTIs. All these indicators highlight the general stability in the financial system.

Private sector credit provided by DTI's has been growing, but at a relatively slow pace, reflecting the lagged effect of the pandemic on credit demand, particularly from businesses.

### **Concluding Statement**

Ladies and gentlemen, I wish to reaffirm Bank of Jamaica's commitment to using all the tools within its powers to fulfill its mandate of price stability, including, making Jamaican dollar assets more attractive, keeping a tight lid on liquidity and maintaining stability in the FX market. The Bank will continue to closely monitor the global and domestic economic environment and base future policy decisions on incoming data.

Thank you and I will now take questions.