



**Monetary Policy
Press Statement:
QMPR Press
Conference**

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Bank of
Jamaica
19 August 2022

Introduction

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

Bank of Jamaica is encouraged by the direction of the last three CPI reports. Having peaked in April 2022 at 11.8%, inflation at May was 10.9%, followed by 10.9% at June and 10.2% at July. Declining international commodity prices, relative stability in the exchange rate, tighter liquidity management by BOJ and higher interest rates, have allowed for this trend.

Notwithstanding this good trend, the Bank believes these conditions have not sufficiently solidified to ensure that inflation is sustainably on a downward path. There remains some significant risks of reversal. The fragile geo-political situation with Russia, Ukraine and Europe in general with its knock-on commodity price risks, cannot be ignored. The reported labour shortages in selected sectors of the economy and pressures from our recent inflation experiences carry the potential for future wage adjustments that could be inflationary. Finally, high inflation in the US and other trading partners has prompted a programme of faster monetary adjustment which could cause capital outflows from

Jamaica and exchange rate depreciation if domestic monetary policy is not properly aligned.

Monetary Policy Decisions

These are some of the factors the Bank's Monetary Policy Committee (MPC) considered when it met on 16 and 17 August 2022 and voted to increase the policy rate by a further 50 bps to 6.0 per cent, effective today, 19 August 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 550 basis points since October 2021 and has taken the policy rate to a level that the Committee considers appropriate. If incoming data on inflation continues to track downwards, and the monetary adjustments in the US in particular are as expected, the MPC agreed that it could pause its policy rate increases.

Complementing the policy rate increases, the Bank adjusted the Net Open Position limits for

deposit taking institutions (or DTIs for short) and sold approximately US\$678 million to the foreign exchange market since October 2021, a little more than a third higher than the amount sold over the corresponding period to July 2021. For the same period, the Bank bought US\$1,964M, principally through the surrender system.

These policy actions contributed to the maintenance of stability in the exchange rate since the start of November last year. Without these actions, imported inflation and hence the final prices faced by consumers would have been much higher.

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.

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

Inflation

The Statistical Institute of Jamaica announced on Monday that the inflation rate for the 12 months leading up to July 2022 was 10.2 per cent. Over the remainder of the year, the Bank forecasts inflation to continue to moderate, consistent with consensus forecast for a fall in commodity prices. This means that, assuming no additional shocks, the public should see annual inflation rates trend towards 9% for the remainder of 2022. Inflation should start to decline from these levels in early 2023, and fall within the 4-6% range by December 2023, as long as tensions between Russia and Ukraine do not escalate and inflation among Jamaica's trading partners continue to fall.

The risks to the inflation forecast are assessed to be balanced, which means that actual inflation could be in line with the forecast. The factors that could cause higher inflation include further disruptions in international supply chains, higher than anticipated pass-through of imported inflation to domestic inflation and a reversal in the trends in commodity prices. The rebound of the domestic economy and the additional demand for labour that this brings may contribute to further upward movements in wages and hence prices. On the

downside, weaker than expected global growth could cause even greater softening of international commodity prices.

Outlook for the Jamaican Economy

The Jamaican economy continues to perform creditably. There are signs that the economy expanded in the June 2022 quarter and so far in the September 2022 quarter. The labour market has also continued its exceptional performance. At April 2022 the unemployment rate fell to a historic low of 6.0 per cent.

For fiscal year 2022/23, the Bank projects real GDP growth in the range of 2.5 per cent to 4.5 per cent and in the range of 1.0 per cent to 3.0 per cent for FY2023/24. The Bank expects that GDP growth will continue to be driven by the services industry, particularly tourism, which has been recovering at a faster than anticipated pace. There has also been some buoyancy in the agricultural sector which is expected to continue as the tourism sector recovers and weather conditions remain favourable. The forecasted growth also reflects the recent resumption of production at the Jamalco alumina plant.

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 strong headwinds to global growth from inflation, tighter financial conditions and geopolitical tensions. More severe weather in the context of climate change also poses a downside risk to GDP growth. Finally, there is a risk that domestic consumption could be adversely affected by the high, albeit falling, domestic inflation.

Other Developments

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 August 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 financial system remains resilient. The deposit-taking institutions' (DTIs) balance sheets have remained adequately capitalized and in compliance with prudent liquidity standards. The quality of the DTIs' loan portfolio remained stable with a ratio of non-performing loans (NPLs) to gross

loans marginally better than that recorded a year earlier.

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

Concluding Statement

Ladies and gentlemen, I wish to reaffirm Bank of Jamaica's dedication to achieving its primary mandate of preserving price stability. The Bank will continue to closely monitor the global and domestic economic environment in this period of high uncertainty and is prepared to pause its monetary policy tightening if incoming data continues to support such a decision.

Thank you and I will now take questions.