Monetary Policy Press Statement:
QMPR Press Conference

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Bank of Jamaica
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Introduction

Good morning and welcome to our Quarterly Monetary Policy Report press conference. As this is our last monetary policy press conference for 2022, I wish to take this opportunity to wish Jamaica a safe and happy Christmas when it comes.

Let me start with a few observations.

Headline inflation at October 2022, as reported by STATIN on Wednesday, was 9.9%. This was higher than the inflation rate of 9.3% at September 2022. While some of the key drivers of headline inflation, such as grains and shipping prices, continue to trend downwards on the world markets, we are not yet seeing the full pass-through to domestic food prices. In addition, core inflation, which excludes the impact of fuel and food prices, at October remained persistently high at 9.0%.

The Bank also notes that monetary tightening among Jamaica's main trading partners is continuing at a rapid pace. On the 2nd of November 2022, the Fed raised its interest rate target by 75 bps, and signalled further rate increases to come. This policy stance could cause capital outflows from Jamaica and a faster pace of exchange rate depreciation, if, domestic monetary policy is not correctly aligned.

Monetary Policy Decisions

It is in the context of these observations that Bank of Jamaica earlier today announced its decision to increase the policy interest rate by a further **50 bps** to **7.00%**, effective Monday, 21 November 2022.

The Monetary Policy Committee also decided to continue to contain Jamaican dollar liquidity expansion and to maintain relative stability in the FX market.

This latest decision has resulted in a cumulative increase of 650 basis points in the policy rate since October 2021. Also, since then, while maintaining a flexible exchange rate, the Bank has taken decisive actions in the foreign exchange market, including selling foreign exchange when necessary. Without these actions, imported inflation and hence the final prices faced by consumers would have been much higher. The Bank's strong international reserves reinforces its ability to support the foreign exchange market, as needed.

The Bank's policy actions were expected 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. They are consequently expected to help to reduce the demand for foreign currency, underpinning a more stable exchange rate and hence lower inflation. The measures are also intended to constrain aggregate demand and, consequently, limit the ability of businesses to pass on price increases to consumers.

Whilst there have been some increases in deposit and loan rates, the Bank anticipates further increases in response to its policy signal.

Twelve months into the tightening cycle, and now at a Policy Rate of 7%, the Bank judges that it is appropriate to pause further policy rate increases and watch its pass-through effect to deposit and loan rates. This pause is also conditional on seeing more pass-through of international commodity price reductions to domestic prices, and on the Fed not exceeding their stated rate increase target for 2022.

Let me now go into some details about the outlook for inflation and the economy.

Inflation

Over the remainder of this calendar year (i.e. November and December), assuming no additional shocks, the Bank forecasts that inflation will continue to fluctuate between 9.5% and 10.5%. Consistent with consensus forecast for a fall in commodity prices and the Bank's overall monetary policy stance, inflation is projected to decline from these levels in early 2023, and to fall within the

4% to 6% target range by December 2023. The forecast assumes that the public's expectation for future inflation will 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 supply chain disruptions and a spike in oil prices. On the downside, weaker than expected global growth could negatively impact domestic demand and imported inflation.

Outlook for the Jamaican Economy

The Jamaican economy continues to perform creditably. The unemployment rate at July 2022 of 6.6% was lower by 1.9% when compared to the corresponding quarter of 2021.

In addition, there are signs that the economy has continued to expand for the September 2022 quarter and the December 2022 quarter to date. For fiscal year 2022/23, the Bank still projects real GDP growth in the range of 2.5% to 4.5% following growth of 8.2% in FY2021/22. The Bank expects that GDP growth will continue to be driven by the services industry, particularly tourism, which has been recovering at a rapid pace. There has also been some buoyancy in the agricultural sector which is expected to continue as the tourism sector recovers and weather conditions improve. The forecasted growth also reflects the recent resumption of production at the Jamalco alumina plant.

GDP growth for FY2023/24 is projected to moderate further, as income growth among Jamaica's main trading partners normalises to pre-COVID rates.

The risks to the growth forecast are skewed to the downside. Growth in tourist arrivals and related activities could be adversely affected by headwinds to global growth. These headwinds include a deepening of geopolitical tensions and the continuation of synchronised tightening of financial conditions among Jamaica’s main trading partners. Finally, there is a risk that domestic consumer spending 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. For the fiscal year to 11 November 2022, the exchange rate depreciated by 0.5%, significantly slower than the 6.7% depreciation recorded over the same period of the previous fiscal year. The central bank in this context sold US$396.1 million via its B-FXITT facility over the period, complemented by sales of US$442.7 million to selected public enterprises, including Petrojam. Notwithstanding these sales, the Bank net purchased from the market over this period, US$521.6 million.

At the 11 November 2022, Jamaica’s gross international reserves remained substantial at approximately US$4.3 billion. The Bank projects that the gross reserves will continue to remain adequate in the medium-term.

In a context where macro-financial risks have risen over the past 6 to 9 months, the domestic financial system remains resilient. Deposit-taking institutions’ (DTIs) balance sheets have remained adequately capitalized and in compliance with prudent liquidity standards. Growth in DTI’s loans and advances to the private sector has started to pick up in the September 2022 quarter, relative to the previous quarter. The quality of the DTIs’ loan portfolio remained stable with a ratio of non-performing loans (NPLs) to gross loans showing improvement when compared to a year earlier.

Concluding Statement

Ladies and gentlemen, monetary policy actions to halt inflation cannot be painless to all parties. However, the greatest pain of all is the impact of inflation on the ability of the working population to afford the basic necessities of food, transportation and housing. In this regard I wish to reaffirm Bank of Jamaica's commitment to doing all that it can to control inflation.

The Bank will continue to closely monitor global and domestic economic data with an expectation that we will see more of the effects of our policies.

Thank you and I will now take questions.