Monetary Policy Press Statement

Quarterly Monetary Policy Report Press Conference

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Bank of Jamaica

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Introduction

Good morning and welcome to our first Quarterly Monetary Policy Report press conference for 2023.

The calendar year has started with inflation trending in an encouraging direction. Headline inflation at January 2023, as reported by STATIN, was 8.1%. This was below the rate of 9.4% at December 2022 and represented the ninth consecutive month that inflation has trended below the peak of 11.8% that we saw in April 2022. Core inflation (which excludes food and fuel prices from the Consumer Price Index) also fell noticeably to 7.1% at January 2023 from 8.5% at December 2022. Notably, the key external drivers of headline inflation, including the prices for selected grains and fuel, have also continued to decline and the exchange rate has been stable, while inflation expectations continued on a downward track.

As expected, the pace of monetary tightening by the United States (US) Federal Reserve Board (Fed) has slowed. Following its increase of 25 bps on 01 February 2023, the Fed is expected to raise interest rates in March 2023 by an additional 25 bps and base its future decisions on the incoming data. We should bear in mind that if interest rate adjustments by the Fed exceeds that projected by the Bank, it would imply the need for further adjustment in domestic monetary conditions.

Notwithstanding these positive developments, the risks to Jamaica’s inflation outlook are elevated. In a context where the domestic economy continues to grow, labour market shortages carry the potential for future wage adjustments that can put upward pressure on inflation. In addition, the projected level of liquidity in the financial system, if left unchecked, poses a material risk to the achievement of the inflation target as well as to the maintenance of stability in the foreign exchange market. Of course, higher inflation could also ensue from a worsening in supply chain conditions and higher commodity prices if there are further geo-political disruptions. On the downside, however, weaker than expected global growth could negatively affect domestic demand and some projected adjustments to regulated prices may not materialise.

Monetary Policy Decision

It is against this background and in an effort to further underpin inflation returning to the target range of 4.0 to 6.0 per cent, that the Bank’s Monetary Policy Committee (MPC) announced its decision yesterday, to increase by one percentage point, the domestic and the foreign currency Cash Reserve Requirements (CRRs) applicable to deposit taking institutions (DTIs), effective 01 April 2023.

The domestic currency CRR will be increased to 6.0 per cent and the foreign currency CRR will move to 14.0 per cent.

The MPC also decided to hold the policy interest rate at 7.00%, to maintain its posture in the money market and to continue ensuring relative stability in the foreign exchange market. In addition, the MPC is continuing its review of the monetary transmission mechanism with the objective of ensuring that monetary policy achieves the desired impact on inflation control.

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

Inflation

Inflation is projected to continue to decelerate in 2023. With less than two months remaining for FY2022/23, inflation is now on track to fall in the range 6¾ to 7¼ per cent for the year. The forecast further envisages that annual inflation will fall within the Bank's inflation target range of 4.0 to 6.0 per cent by the December 2023 quarter and remain generally at that level over the medium-term.

This outlook is consistent with global consensus forecasts for a fall in commodity and shipping prices. It also assumes that inflation expectations will continue to decline and it takes into account the Bank's overall monetary policy stance. Finally, the inflation forecast includes increases in some regulated prices, such as transportation fares and minimum wages, and assumes that there will be no new shocks.

Outlook for the Jamaican Economy

The Jamaican economy continues to show strong growth. Real GDP growth of 5.9% for the September 2022 quarter was higher than the Bank had anticipated and there are signs that the economy continued to expand for the December 2022 quarter and for the March 2023 quarter to date. Of note, domestic economic activity is estimated to have returned to pre-COVID-19 levels in the December 2022 quarter and is expected to remain above pre-COVID levels over the forecast horizon.

For fiscal year 2022/23, real GDP growth is therefore projected in the range of 4.0% to 5.5%. The Bank expects that GDP growth will continue to be driven by tourism, agriculture and the resumption of production at the Jamalco alumina plant.

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

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. At 16 February 2023, the Jamaican dollar appreciated against the US dollar on a year-over-year basis by 1.4%. This compared with a depreciation of 4.0% recorded over the same period of the previous year. In this context, BOJ sold approximately US$732.0 million via its B-FXITT facility over the 12 months to 16 February and sold a further US$583 million to selected public enterprises, including Petrojam. BOJ also bought US$2.2 billion from the market, resulting in net market purchases of US$940.0 million.

At 16 February 2023, Jamaica's gross international reserves remained substantial at approximately US$4.4 billion. The Bank projects that the gross reserves will continue to remain adequate in the medium-term.

The financial system has remained stable despite the impact of fair value losses during 2022. Deposit taking institutions have remained well capitalised, profitable and in compliance with prudent liquidity standards. At the same time, the quality of the DTIs' loan portfolio remained stable.

The final area I want to make brief comments on is Jamaica's recent engagement with the International Monetary Fund (IMF). As the Minister of Finance has already indicated, on 10 February 2023, the Executive Board of the IMF concluded an Article IV consultation with Jamaica and is poised to conclude a Precautionary Liquidity Line (PLL) with Jamaica, which will allow us to access close to US$1 billion in the event of extreme, climate-related shocks. Jamaica also expects to access resources of more than US$750 million under the Resilience and Sustainability Facility (RSF). The matter of the RSF/PLL is slated for IMF Executive Board discussion on 01 March 2023.

Concluding Statement

Ladies and gentlemen, Bank of Jamaica remains committed to achieving its primary mandate of preserving price stability. We will not waver in the resolve to bring inflation back into the target 4.0 – 6.0 per cent corridor.

The Bank will continue to closely monitor the global and domestic environments for potential risks that could threaten Jamaica's inflation target.

Thank you. I will now take questions.