



Bank of Jamaica

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 Quarterly Monetary Policy Report press conference.

I am pleased to report that, consistent with Bank of Jamaica's monetary policy efforts and a generally favourable international environment, inflation in Jamaica has continued to ease, reflecting a slowing of the rate of price increases. This should provide some relief to consumers, businesses and the general public.

Annual headline inflation at April 2023, as reported by STATIN, was 5.8 per cent, falling within the Bank's target range of 4.0 to 6.0 per cent for the first time since July 2021. This is a welcome development and a continuation of the general downward trajectory since inflation peaked at 11.8 per cent one year ago. Core inflation (which excludes food and fuel prices from the Consumer Price Index) at April 2023, also fell, reaching 5.7 per cent from 6.1 per cent at March 2023, a level which was well below the outturn of 8.4 per cent at April 2022.

The primary mandate of Bank of Jamaica and our resolve is to see inflation firmly anchored between 4.0 and 6.0 per cent to allow all stakeholders consumers, businesses and investors, to be able to plan within a macroeconomic environment where inflation is low, stable and predictable.

Notwithstanding the good news to date, there is a risk of inflation again breaching the target temporarily, before being firmly anchored in the 4.0 to 6.0 per cent corridor.

At April, the key external drivers of headline inflation such as grains, fuel and shipping prices, continued to decline and inflation expectations tracked downwards. As expected, the pace of monetary tightening by the United States (US) Federal Reserve Board (Fed) has slowed, and recent developments suggest that interest rates in the US are at, or near, their peak.

There are, however, inflationary pressures in the domestic economy. Adjustments to selected regulated prices such as the national minimum wage, recent increases in the cost of communication services, seasonal increases in agricultural prices as well as pending increases in other regulated prices such as transport costs, could temporarily lift inflation back above the Bank's target range over the next three to four months. Inflation is, however, projected to trend back toward the target range by the December 2023 quarter.

Monetary Policy Decision

Against this background, the Bank's Monetary Policy Committee (MPC) announced its decision on Friday to hold the policy interest rate at 7.0 per cent and to maintain tight Jamaican dollar liquidity in the money market as well as to continue fostering relative stability in the foreign exchange market.

The Committee is satisfied that its monetary policy actions since October 2021 have been effective in achieving the objective of reducing inflation but is of the view that there is need to maintain the policy stance until inflation is firmly contained within the 4.0 to 6.0 per cent corridor.

What is the evidence of the effectiveness of monetary policy? First, interest rates in the domestic money and capital markets and the term rates offered on deposits by DTIs have generally increased in line with the policy rate, with the DTI sector continuing to make small adjustments to rates on saving deposits and loans.

Second, the flow of new loans to the private sector has also declined appreciably in real terms over the six months to March 2023 by 6.5 per cent, and generally reflects the impact of higher interest rates and the tightening in credit conditions.

Third, respondents to Bank of Jamaica's Quarterly Credit Conditions Survey also indicated that credit terms were expected to tighten further for the June 2023 and September 2023 quarters.

Fourth, the maintenance of tight liquidity in the financial system, the occasional intervention of the Bank in the foreign exchange market, has led to relative stability in the exchange rate, which in turn has also had a significant impact on limiting the pass-through of imported inflation to prices

in the Jamaican economy. One positive by-product of this process is that in the context of the stability in the foreign exchange market, deposit dollarisation has continued to trend downward.

Let me now discuss the outlook for inflation and the economy in some more detail.

Inflation

Inflation is projected to average between 4.0 to 6.0 per cent for the December 2023 and March 2024 quarters which is lower than the average inflation rate of 6.3 per cent projected for the June and September 2023 quarters. This outlook is consistent with global consensus forecasts for a continuation of the fall in commodity prices.

It also considers the Bank's overall monetary policy stance and assumes that inflation expectations will continue to decline.

The risks to the inflation outlook are balanced. Higher than projected future wage adjustments, a stronger than anticipated impact of climate change on domestic agricultural prices, and a worsening in supply chain conditions could put upward pressure on inflation. Further, higher than projected interest rates among major developed economies could worsen the interest differential, thereby putting pressure on the exchange rate, which would contribute to higher inflation.

Among the factors that could lead to lower-than-projected inflation are weaker-than-expected global growth, which could negatively affect domestic demand, and some projected adjustments to regulated prices not materialising.

Outlook for the Jamaican Economy

The Jamaican economy continues to grow strongly. Real GDP is estimated to have grown by 3.5 to 4.5 per cent for the March 2023 quarter, a faster growth rate than the 3.8 per cent recorded for the December 2022 quarter. Therefore, for fiscal year 2022/23, real GDP growth is estimated in the range of 4.0 to 5.5 per cent, in line with the range previously anticipated by the Bank.

There are also signs that the economy continued to expand for the June 2023 quarter and GDP growth for FY2023/24 is projected to be in the range of 1.0 to 3.0 per cent.

The Bank expects that this growth for the year will be largely driven by the resumption of production at the Jamalco alumina plant, supported by some improvement in agriculture and manufacturing production.

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 18 May 2023, the Jamaican dollar appreciated against the US dollar on a year-over-year basis by 0.4 per cent. This is compared to a depreciation of 3.3 per cent recorded over the same period a year earlier. In this context, for the calendar year to date, BOJ sold approximately US\$398.3 million via its B-FXITT facility and a further US\$10.0 million to selected public enterprises, including Petrojam. When these sales are set against BOJ purchases, the result is that the Bank net purchased US\$470.3 million.

At 18 May 2023, Jamaica's gross international reserves remained substantial at approximately US\$4.7 billion. The Bank projects that the gross reserves will continue to remain adequate in the medium -term.

Despite the recent turmoil in the banking sector abroad, the domestic financial system remains sound with adequate capital and liquidity. Deposit-taking institutions have remained in compliance with prudent liquidity standards and the quality of the DTIs' loan portfolio has remained stable.

Concluding Statement

Ladies and gentlemen, Bank of Jamaica remains committed to achieving its primary mandate of preserving price stability with inflation being low, stable and predictable. Low, stable and predictable inflation benefits all!

We are encouraged by the recent downward trend in inflation over the past few months but are keenly aware of potential risks to that trajectory. The Bank will therefore continue to closely monitor incoming global and domestic data to make future decisions.

Thank you. I will now take questions.