Bank of Jamaica

# Monetary Policy Press Statement

## Quarterly Monetary Policy Report
## Press Conference

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21 August 2023

## Introduction

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

I wish to start this morning with a brief statement on the Bank's financial stability mandate. There has been an unusual amount of commentary in both the traditional and social media in recent weeks, on issues relating to financial institutions. These commentaries have questioned developments at certain institutions and their implications for financial stability. Let me remind the public that the overall financial system in Jamaica remains safe and sound, adequately capitalised and liquid. The public, both here in Jamaica and abroad, should feel reassured that Bank of Jamaica continues to provide proactive oversight of the financial system and is always prepared to take the necessary actions to preserve the stability of the system.

Let me now turn to the main reason for this press conference. When we last spoke in May, we indicated that, while inflation at April 2023 had returned to the target range, this was to be considered temporary as there was a risk that inflation would again breach this range in subsequent months before returning to the 4-6 per cent corridor.

STATIN reported on Tuesday last week that Jamaica's headline inflation at July 2023 was 6.6 per cent. This was much lower than the peak inflation rate of 11.8 per cent recorded at April 2022.

Contributing to this significant general reduction since April 2022 were declines in the key drivers of inflation such as the price of grains, shipping costs and inflation expectations, as well as Bank of Jamaica's tight monetary policy. However, as we expected, the July inflation outturn was slightly higher than the outturns for May and June 2023, a reflection of the impact of the dry conditions at the start of the year and more recently high temperatures on the prices of domestic agricultural products. In addition, there have been ongoing increases in the price of meals consumed away from home, and the first-round effect of the adjustment in the national minimum wage was recorded in the June 2023 CPI.

Ladies and gentlemen, while headline inflation has breached the target as anticipated, core inflation (which excludes food and fuel prices from the Consumer Price Index) continues to decelerate, aided by the Bank's management of the exchange rate and tightening of Jamaican dollar liquidity. The annual core inflation rate at July 2023 was 5.2 per cent, and has consistently fallen over the past 10 months.

**Monetary Policy Decision**

Given its material success in controlling core inflation, 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.

In reviewing the impact of its previous monetary policy decisions, the MPC noted the following: First, interest rates in the domestic money and capital markets and the term rates offered on deposits by deposit-taking institutions (DTIs) have generally increased in line with the policy rate, with smaller movements in DTI saving deposit rates and new mortgage loans.

Second, growth in the monetary aggregates has been consistent with the Bank's actions. The flow of new loans to the private sector over the year to May 2023 has declined appreciably in real terms by 6.2 per cent and generally reflects the impact of higher interest rates and tightened credit terms in the banking system. Also, notable, local currency deposits grew by 14.4 per cent May 2023, which was faster than the 10.8 per cent growth at April 2023. This increase was above the estimated growth in nominal gross domestic product (or GDP) for the June 2023 quarter and reflects an increasing propensity by Jamaicans to save in the context of attractive, real interest rates.

Third, as noted earlier, the maintenance of tight liquidity in the financial system by offering securities to the market at attractive rates, thereby reducing the quantum of Jamaican dollars available to the banking system, combined with the occasional intervention of the Bank in the foreign exchange market, have led to relative stability in the exchange rate. This in turn, has significantly limited the pass-through of imported inflation to domestic prices.

Finally, a positive by-product of managing inflation is that, in the context of the stability in the foreign exchange market, deposit dollarisation has continued to trend downward from the highs achieved during the pandemic. At June 2023 the deposit dollarisation ratio for DTIs, which is the share of the total deposits in the banking system that is held in foreign currencies, was 40.9 per cent. This is significantly lower than 43.9 per cent that was recorded at the start of 2022 and lower than pre-pandemic ratios. It represents growth of confidence in holding Jamaica dollar deposits based on real interest rates and the knowledge that foreign exchange is easily available from the market when needed.

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

**Inflation Outlook and Risks**

The Bank continues to anticipate that higher agricultural prices, higher education costs and wage pressures will contribute to inflation remaining a little above the target range for the next two months. Notwithstanding this uptick, inflation is forecasted to generally decelerate to the Bank's target range of 4.0 to 6.0 per cent by the December 2023 quarter and, with the exception of a few months in 2024, remain there. This outlook is consistent with global consensus forecasts for the path of certain commodity prices as well as the Bank's continued tight monetary policy stance.

Inflation could, however, rise above the projected path. Higher-than-projected future wage adjustments in the context of the tight labour market, second-round effects from the agricultural price inflation, a worsening in supply chain conditions and an unexpected rise in world oil prices could put upward pressure on inflation. Lower-than-projected inflation could be caused by weaker-than-expected global growth, which could negatively impact tourist arrivals and reduce domestic demand.

**Foreign Exchange Market**

The foreign exchange market has remained relatively stable within a narrow band over the past two years reflecting, in part, the actions taken by the Bank. To prevent undue volatility in the foreign exchange market, BOJ sold approximately US$585 million via its B-FXITT facility for the 2023 calendar year to date. When these sales are set against BOJ purchases, however, the result is that the Bank net purchased approximately US$761 million over the period.

In this context, at 16 August 2023, Jamaica's gross international reserves remained substantial at approximately US$4.6 billion, which exceeded the standard measure of adequacy by approximately 15.0 per cent. The Bank projects that the gross reserves will continue to remain adequate in the medium-term.

One of the outcomes of the Bank's management of the FX market is that it has served to anchor inflation expectations. In the Bank's latest survey of inflation expectations, less than 14.0 per cent of the respondents indicated that strong depreciation in the exchange rate was the most important factor behind their view of future inflation. The most frequently cited factor was changes in the prices of imported commodities such as grains and oil. The last time the exchange rate was the dominant reason, was February 2021, at which time 41 per cent of the businesses surveyed reported the exchange rate as the most important factor guiding their inflation expectations.

**Update and Outlook for the Jamaican Economy**

The Jamaican economy continues to expand, which supports increases in aggregate demand for goods and services and can potentially drive inflation upward. The PIOJ has estimated that the economy grew by 1.5 per cent for the June 2023 quarter and there are signs that the economy continued to expand for the September 2023 quarter. STATIN last Tuesday also reported that the unemployment rate for Jamaica at April 2023 was 4.5 per cent, the lowest on record. This is indeed a momentous achievement for the Jamaican economy. Data on the unemployment rate, supported by anecdotal information about wage adjustments in selected private sector industries, indicates that the domestic labour market is very tight. From the Bank's perspective, this could become a threat to inflation if labour shortages translate into large wage increases and higher prices.

Looking ahead, the Bank continues to project that real GDP will grow by 1.0 to 3.0 per cent for FY2023/24, largely the result of expansion in the mining sector as well as continued growth in tourism and its allied industries. Over the medium term, the economy is projected to settle at its long-run growth rate of 1.0 to 2.0 per cent.

**Concluding Statement**

Ladies and gentlemen, inflation is on its way down and our expectation is that it will continue to decline, except for some months when the general level of price increases could be adversely affected by exceptional circumstances. Bank of Jamaica remains committed to achieving its primary mandate of preserving price stability. The Bank will continue to closely monitor the global and domestic environments for potential threats to Jamaica's inflation target and act accordingly. Among other factors, Bank of Jamaica's future monetary policy decisions will pay careful attention to the incoming data relating to the headwinds noted above, such as wage pressures and second round effects of agricultural price inflation.

Thank you. I will now take questions.