Monetary Policy Press Statement

Quarterly Monetary Policy Report
Press Conference

Richard Byles

Governor

Bank of Jamaica

22 November 2023

Introduction

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

Bank of Jamaica welcomes the data showing that inflation in Jamaica has continued to trend downward. STATIN reported on Wednesday last week that Jamaica's annual headline inflation rate at October 2023 was 5.1 per cent, squarely within the Bank's target range of 4.0 to 6.0 per cent. This was below the 5.9 per cent at September 2023, below the Bank's projections and much lower than the peak rate of 11.8 per cent recorded at April 2022. Core inflation (which excludes food and fuel prices from the Consumer Price Index (CPI)) was 5.7 per cent at October 2023, generally in line with the average for the past two months and was also lower than the 8.4 per cent recorded at April 2022.

The favourable inflation numbers to date represent good news. We have, so far, experienced significant success in controlling inflation.

Contributing to the lower inflation outturn at October were declines in the key drivers such as grains prices, shipping costs and inflation expectations. The exchange rate has also remained generally stable, given strong tourism and remittance inflows. However, the annual inflation rate at October continued to be affected by elevated, albeit moderating, domestic agricultural price inflation.

When the Bank's Monetary Policy Committee (MPC) met on the 17th and the 20th of November, it was advised that inflation was projected to rise above the Bank's target range between December 2023 and March 2025, due in large part to the impact of announced increases in selected public passenger fares. You may recall that PPV fares were increased by 19 per cent on the 15th of October, with a further 16 per cent increase announced to take effect in April 2024. The forecast also assumes that international grains prices will continue to fall while shipping prices are projected to remain low and stable, given a projected slowdown in global growth. Fuel prices are forecasted to remain elevated over the next three quarters and inflation expectations are projected to stabilise.

However, in the context of Tuesday's announcement by the Minister of Finance and Public Service of a temporary two-step reduction in JUTC bus fares effective January 1 and April 1 2024, inflation is now projected to generally remain within the target range except for December 2023 and a few months in 2024. The announced fiscal measure will have a material impact on tempering the potential inflationary pressures of the PPV fare increases.

Monetary Policy Decision

The success to date in controlling inflation, could give rise to the expectation of a softening in the monetary policy stance. However, following a careful survey of the economic environment, the MPC noted that, beyond the impact of increases in transportation fares, the risks to the inflation outlook remained skewed to the upside, meaning that there could be higher inflation.

On the upside, higher-than-projected future wage adjustments in the context of the tight domestic labour market could put further upward pressure on inflation. The recent rains are also expected to reverse the projected declines in agricultural prices that had been built into the forecast between November 2023 and February 2024. On the downside, oil prices could trend below the forecast. We are already seeing evidence of this as WTI crude oil futures averaged US$78 per barrel for the month to date, below the Bank's projection of around US$90 per barrel.

It is in this context that MPC announced the decision yesterday to hold the policy interest rate at 7.0 per cent, to maintain tight Jamaican dollar liquidity conditions as well as engender relative stability in the foreign exchange market.

The Bank, in furtherance of the MPC's decision, also took the operational decision to increase the spread between the policy rate and the Standing Liquidity Facility (SLF) to 300 basis points (bps) from 200 bps, effective today, 22 November 2023. This is intended to allow more flexibility in the Bank's open market operations and to allow money market interest rates more latitude to move, based on the circumstances in the market.

Earlier, on the 6th of November 2023, the Bank also removed the absolute limits on the foreign currency net open positions (FXNOP) applicable to authorised dealers (ADs). This should help to promote relative stability in the exchange rate. Going forward, the Bank will continue to review the effectiveness of these limits and their impact on market conditions, on a quarterly basis.

Let me now discuss the foreign exchange market and the outlook for the economy.

Foreign Exchange Market

The foreign exchange market has remained relatively stable within a band over the last four months, reflecting continued strong tourism and remittance flows, as well as the actions taken by the Bank. To prevent undue volatility in the foreign exchange market, BOJ has sold approximately US$887 million via its B-FXITT facility for the 2023 calendar year to end-October.

When these sales are set against BOJ purchases however, the result is that the Bank net purchased approximately US$893 million over the period, almost double that purchased over the same period in 2022.

One of the positive outcomes of the stable exchange rate is that it has helped to anchor inflation expectations. In the Bank's latest survey of inflation expectations, less than 16.0 per cent of the respondents indicated that movement in the exchange rate was the most important factor behind their view of future inflation, compared to 24 per cent in the previous survey. In addition, respondents indicated that communication by the central bank has played a greater role in informing their views about inflation. This is encouraging.

Update and Outlook for the Jamaican Economy

The Jamaican economy continues to expand. Despite the impact of drought conditions on the agriculture sector, the PIOJ announced yesterday that GDP for the September 2023 quarter is estimated to have grown by 1.9 per cent and there are signs that the economy continued to expand in the December 2023 quarter. The notable low unemployment rate at July 2023 of 4.5 per cent, supported by anecdotal information about wage adjustments in selected private sector industries, indicates that the domestic labour market remains tight.

Looking ahead, the Bank continues to project that real GDP will grow by 1.0 to 3.0 per cent for FY2023/24 and between 1.0 to 2.0 per cent over the medium term.

Concluding Statement

Ladies and gentlemen, although inflation has trended downward and is back within the target range, Jamaica is not yet out of the woods where consumer price increases are concerned. Among other factors, future MPC monetary policy decisions will depend on the incoming data relating to the strength of risks to inflation. The MPC is committed to using the full set of tools to attain its objective of anchoring inflation sustainably within the target range in the shortest possible time.

Thank you. I will now take questions.