Monetary Policy Press Statement

Quarterly Monetary Policy Report
Press Conference

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Introduction

Good morning and welcome to our first Quarterly Monetary Policy Report press conference for 2024.

The year has started with inflation being above the Bank's inflation target. STATIN reported last week that headline inflation at January 2024 was 7.4 per cent, which is higher than the outturns for the previous three months, and above the Bank's target of 4 to 6 per cent. Core inflation, however, which excludes food and fuel prices from the Consumer Price Index, was 5.9 per cent, which is lower than the 7.1 per cent recorded in January 2023.

The inflation outturn at January is higher than the Bank had projected in November 2023. As we communicated then, in the wake of the announcement by the Minister of Finance and the Public Service of the temporary two-phase reduction in JUTC fares, we had estimated that the announced measure would have had a material impact on tempering the inflationary pressures of the PPV fare increases. Inflation was consequently projected to generally remain within the target range, except for December 2023 and a few months in 2024. Upon review, the Bank now recognises that it had overestimated the impact of the reductions in JUTC fares. The two-phase reduction is now estimated to have an offsetting impact of only 0.2 percentage points on annual inflation, with the first reduction already evident in the CPI data for January 2024.

Notwithstanding the welcomed and offsetting reduction in JUTC fares, the higher than targeted headline inflation at January continued to largely reflect the impact of the increase in the PPV fares as well as the effect of wage increases throughout the economy.

The inflation outturn also reflected high agricultural food inflation which has been the result of the adverse weather conditions that affected the Island in 2023.

With this brief background, I will now speak in further detail about the Bank's latest monetary policy considerations and decisions.

Monetary Policy Decision

The Bank's Monetary Policy Committee (MPC) met on the 16th and the 19th of February and was advised that inflation is projected to remain above the Bank's target range until June 2025, largely because of the impact of the temporary price shocks which I outlined earlier, including the projected impact of the second phase of the PPV fare increase, which is scheduled to take effect in April 2024. Without the impact of this second increase in PPV fares, inflation at December 2024 would fall within the target range.

Whilst some key drivers of headline inflation, such as inflation expectations and the exchange rate, have remained generally stable and grains prices have declined and are projected to continue to fall, the risks to the inflation outlook remain elevated.

On the upside, higher than projected second-round effects from the PPV fare increases, higher wage adjustments in the context of a tight labour market and a further deterioration in supply chain conditions could influence higher inflation. In particular, while shipping prices and oil prices have remained below their peak, they have recently risen amid ongoing geopolitical tensions and supply chain disruptions. The factors that could lead to lower-than-projected inflation include weaker-than-projected global growth, which could reduce domestic demand and imported inflation, resulting in lower rates of price change.

In the context of the inflation outturn and outlook, the MPC decided to maintain: (i) the policy interest rate (the rate offered to deposit-taking institutions (DTIs) on overnight placements with Bank of Jamaica) at 7.0 per cent; and (ii) relative stability in the foreign exchange market. The MPC, however, decided to tighten Jamaica dollar liquidity conditions more aggressively.

The Committee also decided to maintain heightened surveillance of these risks to the inflation outlook and will base its future monetary policy decisions on the incoming data related to the strength of the potential risks to inflation noted above.

Let me now look at the foreign exchange market.

Foreign Exchange Market

The foreign exchange market has remained relatively stable, reflecting continued strong tourism and remittance flows as well as the effect of the actions taken by the Bank. To prevent undue volatility in the foreign exchange market, BOJ has sold approximately US$907 million via its B-FXITT facility over the 12 months to end-January 2024.

When these sales are set against BOJ purchases, however, the result is that the Bank net purchased approximately US$1.3 billion over the period.

In the context of the stability in the exchange rate, the general downward trend in dollarization has continued, with individuals and businesses reflecting an increased preference to hold Jamaican dollars.

Update and Outlook for the Jamaican Economy

I will now give a brief update on the Jamaican economy.

Real GDP, which is the total value added generated from economic activity, continues to expand. Despite the impact of bouts of adverse weather on the agriculture sector, real GDP for the December 2023 quarter is estimated to have grown within the range of 1.0 to 3.0 per cent and there are signs that the economy continued to expand in the March 2024 quarter.

This continued economic buoyancy is mirrored in the decline in the unemployment rate to a new record low of 4.2 per cent at October 2023. Supported by anecdotal information about wage adjustments in selected private sector industries, this data on unemployment indicate that the domestic labour market remains very tight. We have seen strong jobs growth in a wide cross-section of the economy, but it has been more pronounced in sectors such as *tourism*, *real estate and other business services,* which tracks the progress of the BPO sector among others, the *distributive trade* sector, the *transport* sector and *construction*. When compared with the growth in the value added of the economy, however, the strong growth in employment suggests that the productivity of labour continues to decline. Combined with the real wage adjustments that have occurred recently, this fall in productivity continues to be of some concern.

Looking ahead, the Bank projects that real GDP will grow by 2.0 to 3.0 per cent for FY2024/25 and between 1.0 and 2.0 per cent over the medium term.

Concluding Statement

Ladies and gentlemen, Bank of Jamaica remains resolute in its commitment to achieving its primary mandate of returning inflation to its target of 4.0 to 6.0 per cent. The MPC will utilize the full set of tools at its disposal to support the policy decisions and is prepared to take the necessary actions, including further tightening of monetary policy, if the emerging upside risks to inflation highlighted above materialise.

Thank you. I will now take questions.