

GOVERNOR

BANK OF JAMAICA
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12 December 2023

Dr the Hon Nigel Clarke, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
30 National Heroes Circle
Kingston 4

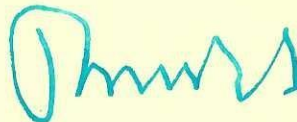
Dear Minister Clarke:

Under section 34FG of the Bank of Jamaica Act, the Monetary Policy Committee (MPC) of the Bank of Jamaica is required to prepare statements on the performance of the Bank with respect to monetary policy and the achievement of the inflation target, which are to be submitted to you every six months, at minimum, or as may be directed by Parliament. The law also guides that you shall, upon receipt of the Monetary Policy Statement (The Statement), table a copy in the House of Representatives, following which, in keeping with the statutory provision, you shall refer it to the Standing Finance Committee of the House of Representatives.

In discharging its statutory obligations, the MPC presents the Monetary Policy Statement below and attaches copies of the Bank's Quarterly Monetary Policy Reports (QMPRs) for the six months to end-September 2023 as additional material in support of this Statement. I will be pleased, if required by the Standing Finance Committee, to attend its meeting to answer any questions in relation to this Statement.

Consistent with the requirements of section 34FG of the Bank of Jamaica Act, we will publish this report following the discussions of the Standing Finance Committee on the Report.

Yours sincerely,



Richard Byles

Enclosures: (2)



Monetary Policy Statement

Six Months ended September 2023



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Jamaica's Recent Macroeconomic Performance and Outlook

Recent Monetary Policy Developments

Jamaica's annual point-to-point inflation rate at October 2023 was 5.1 per cent, below the 5.9 per cent at September, the outturns for the previous four months, and also much lower than the peak rate of 11.8 per cent recorded at April 2022. This outturn reflected the third time since April 2023 that inflation fell within the target band. 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 lower than the 8.4 per cent recorded at April 2022.

The key drivers of headline inflation, such as grains prices, shipping costs and inflation expectations, continued to decline and the exchange rate has remained generally stable, given strong tourism and remittance inflows. However, while moderating, high domestic agricultural price inflation at October reflected the impact of previous drought conditions on agricultural supplies.

When the Bank's Monetary Policy Committee (MPC) met on the 17 and 20 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 vehicle (PPV) fares. Public passenger 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 announcement by the Minister of Finance and the Public Service on 21 November 2023 of a temporary two-step reduction in JUTC bus fares, effective 01 January and 01 April 2024, will support a small reduction in inflation. In this context, inflation is now forecasted to rise above the target range throughout 2024 but decelerate to the target range in early 2025.

Beyond the impact of changes in transportation fares, the MPC concluded, following a careful survey of the economic environment, that the risks to the inflation outlook remained skewed to the upside. In this context, the MPC announced on 21 November 2023 its decision to maintain: (i) the policy interest rate at 7.0 per cent, (ii) tight Jamaican dollar liquidity conditions, and (iii) 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 rate on its overnight Standing Liquidity Facility (SLF) to 300 basis points (bps) from 200 bps, effective 21 November 2023. In this regard, the interest rate on the SLF increased from 9.0 per cent per annum to 10.0 per cent per annum. This decision was 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.

In addition, on 06 November 2023, the Bank removed the absolute limits on the foreign currency net open positions (FXNOP) applicable to Authorised Dealers (ADs). This action should assist in promoting relative stability in the exchange rate.

Over the six months to end-September 2023, the Bank maintained its policy rate at 7.0 per cent. While maintaining a flexible exchange rate regime, the Bank sold US\$505.0 million to the FX market and purchased US\$1 046.0 million from the market. In net terms, the Bank therefore purchased US\$541 million from the market, which was 21 per cent higher than the net purchases over the same period of 2022.

In this context, Jamaica's gross international reserves increased by US\$183.6 million to US\$4.9

billion at 30 September 2023, relative to end-April 2023.

The Bank will continue to closely monitor the global and domestic economic environments for these potential risks to Jamaica's inflation rate and is prepared to take the necessary actions to anchor inflation sustainably within the target range in the shortest possible time.

As stipulated by the Bank of Jamaica (Amendment) Act, 2020, the Bank is dedicated to achieving its primary mandate of preserving price stability.

Developments over April 2023 to September 2023

The annual point-to-point inflation rate at September 2023 was 5.9 per cent, lower than the 6.2 per cent at March 2023 and was within the Bank's target range of 4.0 to 6.0 per cent. The outturn, which was the lowest since April 2023 (5.8 per cent), reflected the continuation of a favourable general downward trend since April 2022 when inflation peaked at 11.8 per cent. For the period April 2023 to September 2023, inflation fell within the Bank's target range on two occasions (April and September) and breached the upper end on the remaining four occasions.

The lower inflation outturn at September 2023, relative to March 2023, mainly reflected lower increases in the prices of restaurant and accommodation services, other miscellaneous services and food (with the exception of agricultural items).¹ This primarily reflected the impact of declines in the prices of international commodities such as crude oil and grains, lower shipping costs and a relatively stable exchange rate. In addition, tight fiscal and monetary policy continued to limit the second-round impact of imported inflation and lower inflation expectations.

The Jamaican economy continued to grow, albeit at a slower pace. Real gross domestic product (GDP) grew by 2.3 per cent for the June 2023 quarter, relative to the growth of 4.2 per cent for the March 2023 quarter and is estimated by the PIOJ to have grown by 1.9 per cent for the September 2023 quarter. The growth in domestic activity for the six months to September 2023 primarily reflected growth in the Mining & Quarrying, Hotels & Restaurants, Electricity & Water Supply and Transport, Storage & Communication industries. These improvements were partly offset by declines in the Agriculture, Forestry & Fishing, Construction, Wholesale & Retail Trade, and Producers of Government Services sectors.

Jamaica's current account (CA) of the balance of payments (BOP) for the period April 2023 to September 2023 is estimated to have improved, relative to the same period in 2022. A surplus of US\$363.1 million (or 1.9 per cent of GDP) is estimated for the period, approximately US\$435 million higher (better) than the balance for the same period in fiscal year (FY) 2022/2023. The estimated improvement in the CA was primarily reflected in improvements in the merchandise trade balance and the services sub-account. The lower merchandise trade deficit primarily reflected an improvement in exports and a fall in imports, the former reflecting higher mining and quarrying activity. The estimated fall in imports was mainly due to a decline in fuel prices, partially offset by higher volumes of consumer goods.

The higher surplus on the services sub-account reflected increases of 12.2 per cent and 2.3 per cent in stopover visitor arrivals and average daily expenditure, respectively, relative to the

¹ The prices of *vegetables, tubers, plantains, cooking bananas and pulses* increased by 23.4 per cent at September 2023 relative to a year earlier. This was an acceleration relative to the 8.3 per cent increase as at March 2023 due in large part to the impact of drought conditions earlier in the year as well as high temperatures.

corresponding period of the previous year. This improvement was partially offset by a deterioration in the income account due to higher GOJ debt-related payments.

Net remittance inflows for the April to September 2023 period were lower by 3.2 per cent, relative to the same period in 2022/2023.

The foreign exchange market remained relatively stable over the review period, reflecting, in part, improved foreign currency flows and the actions taken by the Bank to engender stability. The exchange rate depreciated over the review period by 3.0 per cent (\$4.57) to J\$155.48 = US\$1.00 at 29 September 2023. This compared to an appreciation of 0.6 per cent (\$0.96) over the corresponding period of FY2021/2022. Also, the average of the daily exchange rate for the twelve months to 29 September 2023 depreciated by 0.1 per cent, compared with the same measure at end-September 2022, a lower rate than the 3.3 per cent depreciation recorded a year earlier. Demand pressures for the review period mainly stemmed from portfolio-related transactions by financial institutions.

Deposit dollarisation continued to trend downward, showing a preference by the public to hold Jamaican dollars relative to US dollars.

The financial system remained stable over the review period. Deposit-taking institutions (DTIs) remained well capitalised and retained adequate liquidity to allow them to withstand shocks. Further, banks remained profitable as measured by their return on assets (ROA).²

The stock of credit provided by DTIs to the private sector at end-September 2023 grew by 12.2 per cent relative to a year earlier, which was in line with the growth rate at end-March 2023 (12.2 per cent) but stronger than the 11.7 per cent recorded at end-September 2022. The growth in private sector credit reflected an increase of 13.5 per cent in lending to the productive sector, above the growth of 12.0 per cent at end-March 2023 and was primarily reflected in the Professional & Other Services, Tourism, Construction, Manufacture, Distribution, Entertainment, and Transport industries. The annual growth in lending to consumers grew by 11.2 per cent at end-September 2023, below the growth of 12.3 per cent at end-March 2023.

The flow of new loans to the private sector, however, declined in real terms by 3.1 per cent over the six months to September 2023, relative to the same period in 2022 and, as indicated by DTIs in Bank of Jamaica's Quarterly Credit Conditions Survey, generally reflected the impact of tightened credit terms.

The quality of bank's credit remained generally good over the period. The ratio of non-performing loans (NPLs) to gross loans increased marginally to 2.5 per cent at end-September 2023 from 2.4 per cent at end-March 2023. In addition, the ratio of past-due loans (PDLs) to total loans was 2.8 per cent at end-September 2023, slightly higher than the 2.5 per cent recorded at end-March 2023.

Outlook

Jamaica's macroeconomic outlook remains generally positive. Inflation is projected to rise above the target range throughout 2024 but decelerate to the target range in early 2025. In this context, the annual point-to-point inflation rate for FY2023/24 is projected in the range of 6.0 per

² At end-August 2023, the ROA of the DTIs stood at 1.5 per cent, below the ROA of 1.9 per cent at end-April 2023.

cent to 7.0 per cent while, for FY2024/25, inflation is projected in the range 5.0 to 6.0 per cent. The forecast 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 (December 2023 to June 2024) and inflation expectations are projected to stabilise.

The risks to the inflation outlook remains 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 assumed for the forecast between November 2023 and February 2024. On the downside, oil prices could trend below the forecast.

GDP growth for FY2023/24 is projected in the range 1.0 to 3.0 per cent. GDP growth for FY2024/25 is projected to moderate to the range 0.5 to 2.5 per cent. Both projections are driven by expansions for Hotels & Restaurants and its allied industries, Mining & Quarrying, Manufacturing and Electricity & Water Supply. The projected growth over the near-term (December 2023 to September 2025) is marginally higher than the Bank's previous forecast, primarily reflecting higher growth for Hotels & Restaurants and its allied industries as well as Manufacturing, Construction, and Electricity & Water Supply.

The risks to the GDP forecast are skewed to the downside, which means that actual GDP growth could be lower than the forecast. Growth in tourist arrivals and related activities could be adversely affected by headwinds to global growth. There is also a risk that domestic consumer spending could be negatively affected by the impact of domestic inflation.

The CA of the balance of payments for FY2023/24 is projected to deteriorate to a deficit in the range of 0.5 to 1.5 per cent of GDP, from a surplus of 1.9 per cent of GDP for FY2022/23. This deterioration largely reflects higher deficits on the general merchandise trade balance and the income sub-account, a lower surplus on the current transfers sub-account, partially offset by a higher surplus on the services sub-account.

The risks to the projections for the current account deficit (CAD) are balanced. The main upside risks (higher deficit) to the CAD relates to lower travel inflows associated with weaker-than-projected growth in Jamaica's source markets. The main downside risks (lower deficit) relates to lower imports associated with weaker-than-projected domestic demand.

The gross international reserves are projected to remain above the Assessing Reserve Adequacy (ARA) 100 per cent benchmark over the medium-term. The risks to the reserves are balanced.

Bank of Jamaica reaffirms its commitment to achieving its primary mandate of maintaining price stability to the benefit of the entire population. The Bank will maintain its heightened surveillance of the global and domestic economic environments for potential risks to Jamaica's inflation rate and is committed to using the completed set of tools at its disposal to achieve the policy objective. The Bank is prepared to take the necessary actions, including further tightening of monetary policy, if the emerging upside risks to inflation materialise.