GOVERNOR

BANK OF JAMAICA
NETHERSOLE PLACE
P.O. BOX 621
KINGSTON, JAMAICA, W.I.

22 May 2024

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-March 2024 as additional material supporting 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 its discussions by the Standing Finance Committee.

Yours sincerely,

Richard Byles

Enclosures: (2)

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Monetary Policy Statement

Six Months ended March 2024

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Jamaica's Recent Macroeconomic Performance and Outlook

Recent Monetary Policy Developments

Consistent with Section 34FF (8) of the Bank of Jamaica Act, which states that a review of the inflation target is required every three years, the Minister of Finance and the Public Service affirmed in April 2024 that Bank of Jamaica's (BOJ) target for the 12-month point-to-point inflation rate for fiscal year (FY) 2024/25 to FY2026/27, as measured by the percentage change in the Consumer Price Index (CPI), would remain at 4.0 to 6.0 per cent. This target remains consistent with the country's economic structure and stage of economic development. In particular, the prevalence of shocks, labour market rigidities, low productivity, a weak monetary transmission system and regulated price adjustments constrain the ability of BOJ to deliver a lower inflation rate in the near term.

The Jamaican economy continues to perform creditably. Jamaica's annual point-to-point inflation rate of 5.3 per cent at April 2024 was within the Bank's target range and 0.3 percentage point lower than the rate recorded at March 2024. The April 2024 outturn was also lower than the Bank's most recent forecast, mainly due to a faster-than-projected deceleration in agricultural food inflation. Further, core inflation (which excludes food and fuel prices from the CPI) was 5.7 per cent at April 2024, marginally lower than the outturn at March 2024. The MPC welcomed the reduction in inflation, which represented the second consecutive month in which annual inflation was within the target range.

Some key drivers of headline inflation, such as international grain prices and inflation expectations, continued to decline. Inflation in the economies of Jamaica's main trading partners has also continued to moderate. The exchange rate has remained generally stable, given BOJ's monetary policy actions as well as strong tourism and remittance inflows. However, international oil prices have been volatile.

The Bank's Monetary Policy Committee (MPC) met on the 16 and 17 May 2024. It announced the decision 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; (ii) relative stability in the foreign exchange market; and (iii) tight Jamaican dollar liquidity conditions. The MPC was advised that inflation is projected to breach the upper end of the target range towards the end of the June 2024 quarter, mainly reflecting seasonally higher agricultural food inflation, a normalisation in electricity rates following significant declines in the same quarter of 2023, as well as higher transport costs due to an uptick in international oil prices. Thereafter, inflation is projected to return to the target range and generally remain there over the next eight quarters except for a few months in 2025.

The MPC's decision to maintain its monetary policy stance, however, reflected the fact that while inflation is moderating and continuing its downward trend, it is still not firmly anchored within the target range and the risks to future inflation are skewed to the upside (meaning inflation could be higher than projected). While maintaining a flexible exchange rate regime, the Bank sold US$459.7 million to - and purchased US$1 200.7 million from - the foreign exchange market over the six months to end-March 2024. In net terms, the Bank, therefore, purchased US$741 million from the market, which was 0.3 per cent lower than the net purchases over the same period of 2023.

In this context, Jamaica's gross international reserves increased by US$385.2 million to US$5.2 billion at end-March 2024, relative to end-September 2023.

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

Developments from October 2023 to March 2024

The annual point-to-point inflation rate at March 2024 was 5.6 per cent, lower than the 5.9 per cent at September 2023 and within the Bank's target range of 4.0 to 6.0 per cent. The outturn, which was the lowest since October 2023 (5.1 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 October 2023 to March 2024, inflation fell within the Bank's target range on two occasions (October and March) and breached the upper end on the remaining four occasions. The lower inflation outturn at March 2024, relative to September 2023, was due primarily to lower agricultural food inflation.

Though moderating, the Jamaican economy continues to grow, which supports increases in aggregate demand for goods and services. Real gross domestic product (GDP) grew by 1.7 per cent for the December 2023 quarter, relative to the growth of 2.3 per cent for the September 2023 quarter and is estimated by the Planning Institute of Jamaica (PIOJ) to have grown between 1.5 to 2.5 per cent for the March 2024 quarter. The growth in domestic activity for the six months to March 2024 primarily reflected growth in the Mining & Quarrying, Agriculture, Forestry & Fishing, Hotels & Restaurants, Electricity & Water Supply, Wholesale & Retail Trade, and Financing & Insurance Services industries. These improvements were partly offset by declines in the Construction and Producers of Government Services sectors.

Jamaica's current account (CA) of the balance of payments (BOP) for the period October 2023 to March 2024 is estimated to have improved, relative to the corresponding period in the previous year. A surplus of US$463.4 million (or 2.4 per cent of GDP) is estimated for the period, approximately US$40.7 million higher (better) than the balance for the same period in FY2022/23. The estimated improvement in the CA was primarily reflected in an improvement in the services sub-account, partially offset by a deterioration in the merchandise trade balance, current transfers and the income account.

The higher surplus on the services sub-account reflected an increase of 8.1 per cent in stopover visitor arrivals relative to the corresponding period of the previous year.

The lower merchandise trade surplus primarily reflected a fall in exports, partially offset by a fall in imports, the former reflecting lower re-exports. The estimated fall in imports was mainly due to a decline in fuel and raw material import prices. This decline was partially offset by higher imports of consumer goods and transport equipment. The value of consumer goods and transport equipment imports over the period was higher than pre-pandemic levels.

The deterioration in the income account was primarily due to higher GOJ debt-related payments. With regard to the current transfers sub-account, net remittance inflows for the October 2023 to March 2024 period were lower by 3.0 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 in the market. The exchange rate appreciated over the six months ended March 2024 by 0.5 per cent ($0.79) to J$154.70 = US$1.00. This compared to an appreciation of 1.2 per cent ($1.91) over the corresponding period of FY2022/2023. Also, the average daily exchange rate for the twelve months to end-March 2024 depreciated by just 1.2 per cent, compared with the same measure at end-March 2023, broadly similar to the rate of 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 an increased preference by the public to hold Jamaican dollars relative to US dollars.

The financial system remained stable over the review period. 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).[1]

The stock of loans provided by Other Depository Corporations (ODCs) to the private sector at end-March 2024 grew by 10.7 per cent, which was slightly weaker than the growth rate at end-September 2023 (12.3 per cent) as well as the rate of 11.8 per cent recorded at end-March 2023.[2] The slower growth in private sector loans reflected a moderation of growth in lending to the productive sector to 9.1 per cent, below the 14.0 per cent recorded at end-September 2023 and the 11.7 per cent recorded at end-March 2023. This was influenced by declines in lending to the Mining, Electricity, Tourism and Agriculture industries and partly offset by growth in the other industries. The annual growth in consumer lending grew by 11.7 per cent at end-March 2024, above the growth of 11.4 per cent at end-September 2023 but below the growth of 12.0 per cent at end-March 2023.

The flow of new loans provided by DTIs to the private sector over the six months to March 2024, however, declined in real terms by 6.1 per cent relative to the same period in 2023. As indicated by financial institutions in Bank of Jamaica's Quarterly Credit Conditions Survey, this decline generally reflected the impact of tightened credit terms.

The quality of DTIs' credit remained fairly stable and low for the review period, consistent with a relatively stable macroeconomic environment. The ratio of non-performing loans to gross loans declined (improved) to 2.3 per cent at end-March 2024 from 2.5 per cent at end-September 2023. However, the ratio of past-due loans to total loans (PDL) deteriorated slightly to 3.0 per cent at end-March 2024, from 2.8 per cent at end-September 2023.

Outlook

Jamaica's macroeconomic outlook remains generally positive. In this regard, the average inflation rate over the next two years (June 2024 to March 2026) is projected to fall to 5.6 per cent, relative to 7.5 per cent over the previous eight quarters. The reduction in average inflation over the next two years occurs in the context of the impact of the Bank's relatively tight monetary policy posture on inflation expectations, the exchange rate and, consequently, imported inflation. As mentioned earlier, inflation is projected to breach the upper end of the target range towards the end of the June 2024 quarter, mainly reflecting seasonally higher agricultural food inflation, a normalisation in electricity rates following significant declines in the same quarter of 2023 as well as higher transport costs due to an uptick in international oil prices. Thereafter, inflation is projected to return to the target range and generally remain there over the next eight quarters except for a few months in 2025.

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[1] At end-March 2024, the ROA of the DTIs stood at 2.2 per cent, above the ROA of 1.7 per cent at end-September 2023.

[2] The stock of existing loans is based on the new statistics. It includes the disbursements by ODCs and interest accrued on these loans. ODCs include commercial banks, building societies, credit unions and merchant bank.

This current inflation outlook is lower than the Bank's previous forecast. The improved outlook is mainly due to the removal of the second increase in public passenger vehicles (PPV) fares, which was scheduled for April 2024, given the Government's recent announcement to postpone the increase. Processed food prices and the cost of meals away from home were also revised downward due to lower international grain prices. The impact of these downward impulses is partly offset by the incorporation of the announced increase in the national minimum wage and higher energy and transport-related inflation, due to higher international oil prices.

The risks to the inflation outlook are skewed to the upside. In particular, while core inflation has moderated, it remains close to the upper end of the target range. Additionally, both measured and survey-based indicators of inflation expectations have remained unsustainably above the inflation target, albeit decelerating. Based on our latest survey of inflation expectations, businesses reported that they expect inflation a year ahead to be 8.0 per cent. Anecdotal information also suggests that wage adjustments have decelerated but remain elevated. This observation is a concern for the Bank. There are also some exogenous upside risks, such as higher-than-projected international oil prices and worse-than-anticipated weather conditions due to the emerging La Niña weather phenomenon that could result in a more active 2024 hurricane season. The factors that could result in lower-than-projected inflation include weaker-than-projected global growth, which could reduce domestic demand and imported inflation.

GDP growth for FY2023/24 is estimated within the range of 1.5 to 2.5 per cent. GDP growth for FY2024/25 is projected to moderate to the range of 1.0 to 2.0 per cent. Both projections are driven by expansions for Hotels & Restaurants and its allied industries, Mining & Quarrying, Manufacture and Electricity & Water Supply. The projected growth over the near term (June 2024 - March 2026) is in line with the previous forecast, primarily reflecting lower growth for Agriculture, Forestry & Fishing, Mining & Quarrying and Construction, offset by higher growth for Hotels & Restaurants and Electricity & Water Supply. The risks to the domestic GDP forecast over the next eight quarters are assessed to be on the downside, which means that actual GDP growth could be lower than forecast. On the downside, escalations in geopolitical tensions could adversely affect global growth and, hence, external demand for tourism services.

The current account (CA) of the balance of payments for FY2023/24 is estimated to have improved to a surplus in the range of 2.5 to 3.5 per cent of GDP, from a surplus of 2.0 per cent of GDP for FY2022/23. For FY2024/25, the current account surplus is projected to moderate within the range of 1.0 to 2.0 per cent relative to FY2023/24.

The risks to the projections for the CA are skewed to the downside (lower surplus). The main downside risks relate to greater imports associated with higher commodity prices and lower travel inflows associated with weaker-than-projected growth in the Island's tourism source markets.

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. Future monetary policy decisions, including reduced interest rates, will depend on incoming data related to the risks to inflation stated above. In particular, the evolution of wage increases, inflation expectations and core inflation are important factors that will guide the MPC's decisions in the future. The Bank will maintain heightened surveillance of the risks to inflation.