

16 January 2019

Inflation Lower Than Bank of Jamaica Target

The Consumer Price Index (CPI) for the month of December 2018 fell by 1.0 per cent which brought the annual point-to-point inflation rate at December 2018 to 2.4 per cent. This was lower than Bank of Jamaica's target of 4.0 per cent to 6.0 per cent.

As a consequence, Bank of Jamaica will send a report to the Minister of Finance and the Public Service within 60 days (that is, by 15 March 2019) on why the target was missed and any proposed remedial actions, if deemed necessary. Under the terms of the precautionary Stand-by Arrangement with the International Monetary Fund, the Bank is also obliged to consult with IMF staff on the deviation of inflation from the programme target.

Why was Inflation lower than the target?

Inflation at December 2018 was lower than Bank of Jamaica's target because of a decline in agricultural prices during the December 2018 quarter coupled with a significant reduction in international oil prices during the same period and limited pass-through of improved domestic demand conditions to prices.

The economy needs a level of inflation that is neither too high nor too low. An inflation rate of between 4.0 per cent and 6.0 per cent is judged to be appropriate for Jamaica at this time to ensure a range of desired economic outcomes. A lower inflation rate may be associated with weakness in the economy.

Near Term Outlook

Bank of Jamaica anticipates that annual inflation will fall below the target at points during the March 2019 quarter and the latter half of FY2019/20. This near-term outlook reflects the

current trends in international commodity prices, potential weakening in global demand and seasonal improvements in domestic agricultural food production.

The Bank remains committed to fostering conditions that generate an acceleration in economic activity that will return inflation to the target of 4.0 per cent to 6.0 per cent in the medium term. In this context, on 20 December 2018 the Bank lowered the policy interest rate (the rate offered on overnight deposits at Bank of Jamaica) by 25 basis points to 1.75 per cent. The Bank's expectation is that financial institutions will pass on the lower rate to customers, resulting in increased economic activity. (See press release: <https://bit.ly/2rQ912Q>)

Background

Breaches of the inflation target of 4.0 per cent to 6.0 per cent as set by the Minister of Finance and the Public Service in September 2017 and re-affirmed in August 2018 require that Bank of Jamaica explains to the Minister and to the Jamaican public why the target was missed and propose remedial actions, as deemed necessary. Breaches of the bands in the monetary policy consultation clause of the IMF Stand-by Arrangement also require Jamaica to consult with the IMF on the causes of the breach and the proposed remedies.