

**Quarterly Press Briefing**

***Brian Wynter***

**Governor**

Bank of Jamaica

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Good Morning Ladies and Gentlemen:

This morning the Bank is releasing the Quarterly Monetary Policy Report for the December 2013 quarter. My remarks will be confined to a brief summary of the key economic developments.

**IMF**

1. A mission from the IMF visited Jamaica during 5 -13 February to undertake the third review of Jamaica’s performance under the 4-year Extended Fund Facility (EFF). At the end of the review, the consensus of the Fund mission and the Government’s team was that Jamaica has continued to make strong progress under the EFF-supported macroeconomic programme.
2. Specifically, all the quantitative and associated performance criteria were achieved for the December 2013 quarter. In addition, the Government has been adhering to the timeline agreed for undertaking structural reforms.
3. Approval of the third review by the Executive Board of the IMF is expected in March and will result in the fourth drawdown of approximately US$71 million before the end of the fiscal year.

**GDP**

1. We note the statement by the IMF mission indicating strengthened growth estimates of 1.4 per cent in the December quarter. This is similar to the Bank’s estimates and reflects a pickup in the 0.5 per cent pace of growth realised in the September quarter. The expansion reflects more robust growth in Agriculture, Forestry & Fishing, in Mining & Quarrying, in Construction & Installation and in Hotels & Restaurants. Expansion in economic activity was influenced by improvements in gross fixed capital formation.
2. Our projections indicate that expansion will continue in the March 2014 quarter, maintaining the pace of the December quarter. This is predicated on stronger growth in the global economy, on-going recovery from the impact of Hurricane Sandy in late-2012 and a fillip to investor confidence from the continued implementation of the policies under the EFF. Similar to the two previous quarters, increased economic activity is expected to be largely reflected in the performance of Agriculture, Forestry & Fishing, Mining & Quarrying, Hotels & Restaurants and Construction & Installation. For the fiscal year, therefore, GDP growth is projected to be in the range of 0.0 per cent to 1.0 per cent for the fiscal year but with the point estimate now closer to the upper bound.

**BOP and FX**

1. Preliminary estimates indicate a reduction of US$307 million in the current account deficit of the balance of payments for the first three quarters of the fiscal year when compared to the corresponding period of FY2012/13. This improvement mainly reflected a smaller merchandise trade deficit and higher net remittance inflows. The fall in the current account deficit along with official capital inflows supported an increase in the net international reserves (NIR). Consequently, the NIR at end December was U$1,047 million, exceeding the target by US$220 million.
2. However, with the increased demand for foreign currency during the December quarter to satisfy the seasonal expansion in imports, the Jamaican dollar depreciated by 2.6 per cent against the US dollar during the review quarter. This followed the depreciation of 2.1 per cent in the preceding quarter.

**Inflation**

1. Notably, though, headline inflation was 1.9 per cent for the review quarter, below the Bank’s projected range of 2.0 per cent to 3.0 per cent.
2. Inflation in the review quarter was largely driven by administrative increases in water and sewerage rates, the higher cost of fuel, increased demand associated with the Christmas holidays and some pass-through from exchange rate depreciation. This was moderated by the weak but recovering domestic demand conditions and further declines in the cost of communication and international grain prices.
3. For the March quarter, we are projecting a further slowing in the rate of inflation to a range of 1.5 per cent to 2.5 per cent. The main inflationary impulses are expected to stem from some pass-through of depreciation to the prices of processed foods, services and durables as well as seasonal price adjustments. However, there are expected to be some countervailing influences from declines in international commodity prices as well as the improving but still relatively weak domestic demand. Given the lower-than-anticipated outturn for the December quarter and the forecast for the March quarter, the Bank is maintaining the projection for inflation for FY2013/14 within the target range of 8.5 per cent to 10.5 per cent but with the point estimate in the middle to lower part of the range.

**Interest rates and liquidity**

1. During the review quarter, the Bank continued to offer longer-term CDs to the market at market interest rates. However, in order to alleviate periodic tight liquidity conditions in the financial system during the quarter, the Bank also continued to inject liquidity on a regular 14-day cycle using repurchase operations with deposit-taking institutions (DTIs). In addition, the Bank established in December a Standing Liquidity Facility under which DTIs have automatic access to overnight liquidity by way of overnight repurchase agreements.
2. Against this background, the Bank’s activities resulted in a net injection of liquidity into the system for the review quarter. Despite the net injection, however, liquidity in the system remained relatively tight and concentrated, contributing to a general increase in market-determined interest rates in the quarter, including the yields on GOJ Treasury Bills.
3. Nevertheless, in the context of the outlook for moderate growth and somewhat slower inflation, Bank of Jamaica maintained its 30-day monetary policy signal rate at 5.75 per cent during the December quarter.
4. The Bank’s monetary policy is expected to maintain a steady course in the near term to guard against risks to inflation from elevated inflation expectations while preserving a climate hospitable to increased investment financed by further expansion of credit to businesses.

Thank you. I will now take questions.