Quarterly Press Briefing

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Bank of Jamaica

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Ladies and Gentlemen:

Today the Bank is releasing the Quarterly Monetary Policy Report for January to March 2014. The key economic developments covered by the report and the short-term outlook have also been the focus of an IMF review mission.

The IMF visited Jamaica during 5-16 May to carry out the fourth review of Jamaica's performance under the four-year Extended Fund Facility ("EFF") as well as an Article IV review - an overall macroeconomic policy assessment that the IMF conducts on a regular basis with all its member countries. At the end of the mission, the consensus of the Fund mission and the Government's team is that Jamaica has continued to make strong progress under our economic reform programme.

The quantitative fiscal and monetary performance criteria were met for the March 2014 quarter. In addition, the structural reforms to which the Government had committed were all implemented.

More important, the economic outlook is improving, crisis risks have receded, growth has picked up, net exports are stronger, inflation has been brought under control and reserves are starting to recover. Although the initial adjustment has been steep, Jamaica is laying a firm foundation for strong sustainable economic growth.

It is expected that the IMF Executive Board will consider and approve this review in June, which will result in Jamaica receiving the fifth drawdown amounting to approximately US$71.0 million. Similar to the first drawdown last year, these funds are expected to be made available as direct financing to the Central Government, thus supporting the continuation of planned structural reforms.

The Article IV component of the mission included an assessment of the appropriateness of the exchange rate. The mission concluded that there has been a considerable reduction in the degree of overvaluation compared to the assessment a year ago. The Bank broadly agrees with this conclusion. What this means in practice is that exchange rate depreciation that is faster, more or less, than the difference between Jamaica's inflation rate and the inflation rates of our trading partners – mainly the United States - may be unwarranted. Indeed, we should keep focused on the current account of the balance of payments. The country has been earning less than it consumes, ie, there is a deficit. This is the main driver that has been pushing the depreciation in the currency. The current account deficit has been improving significantly and continues to do so, thus reducing pressure in the foreign exchange market. With the Bank's foreign exchange reserves now substantially rebuilt, the rate of depreciation is slowing down. Therefore, Bank of Jamaica does not expect to see market movements falling outside a reasonable range relating to this inflation differential and will act decisively to discourage any disorder that may emerge in the market.

Against this background, the Bank's objective remains the containment of annual inflation in single digits. Our medium-term target is to reduce inflation to levels comparable to our trading partners. As at March 2014, annual inflation of our main trading partners ranged between 0.7 per cent and 2.4 per cent.

For FY2014/15, the Bank is projecting headline inflation in Jamaica to be within the range of 7.0 per cent to 9.0 per cent. This forecast reflects the expected impact of some pass-through of depreciation to the prices of processed foods, services and durables as well as revenue measures and moderate increases in the costs of international commodities. For the current quarter ending in June, the Bank's current forecast is indicating that inflation will be in the range of 1.0 per cent to 2.0 per cent. This projection is underpinned by announced increases in the prices of some processed foods, rising grains prices, some pass-through of depreciation in the Jamaican dollar and the impact of the recent revenue measures. In addition, there could be some upward pressure from recent increases in international oil prices. However, the impact of these inflationary impulses is expected to be moderated by relatively weak domestic demand.

Bank of Jamaica has a growing track record of success in containing the annual rate of inflation to the target range or below. For FY2012/13, for example, the inflation outturn was 9.1 per cent, within the target range of 7.5 per cent to 9.5 per cent. Inflation for the fiscal year just ended

(2013/14) was 8.3 per cent, below the target range of 8.5 per cent to 10.5 per cent. The performance of the inflation outcome relative to the annual target over the years is explored more extensively in the QMPR.

In spite of the continued favourable outlook for inflation, monetary policy is expected to remain relatively conservative over the near term. This is in a context where inflation expectations, as expressed by the public, remain elevated and there is some volatility in international commodity prices. At the same time, the Bank is committed to ensuring that there is an appropriate level of liquidity in the financial system to facilitate investments for growth while simultaneously maintaining the levels of domestic and external price stability that is needed to meet the target for inflation.

Thank you.