BANK OF JAMAICA

Quarterly Press Briefing

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Bank of Jamaica

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Low Inflation, Faster Growth

Good afternoon, ladies and gentlemen.

Today the Bank releases the Quarterly Monetary Policy Report for the April to June 2015 quarter.

I bring good news on the inflation front. Bank of Jamaica's inflation expectations survey conducted in July reveals that expected inflation 12-months ahead has fallen to 4.0 per cent. This compares with the 5.1 per cent that I reported in my last press conference and represents a new record low in the history of the survey. This is also well below the Bank's target for the fiscal year. This is very encouraging indeed and supports our efforts to restrain general price increases to moderate levels. It will also support us in reaching our medium-term goal of matching our inflation with inflation in our main trading partners (ie, the US, Trinidad and Tobago, Canada, the UK, China and the Euro Area).

Our current forecast is for inflation to end fiscal year 2015/16 in the range of 5.5 to 7.5 per cent. In other words, barring unforeseen adverse events, our inflation target is going to be met. With inflation during the month of July recently reported by STATIN at 0.9 per cent, inflation for the 12 months to the end of July was only 3.8 per cent. This is the lowest in more than 43 years and compares to 9.0 per cent in July last year. As I have stated repeatedly since January, we are forecasting that the 12-month inflation rate will continue to fall through to the end of September before rising in the second half of the fiscal year to end within our target range of 5.5 to 7.5 per cent.

Against the background of lower inflation expectations, among other factors, the Bank on 18 August reduced the signal interest rate on its 30-day certificate of deposit by 25 basis points to 5.25 per cent per annum. This followed a reduction of 25 basis points in April and is the lowest policy rate since Jamaica adopted liberalised financial market practices a quarter century ago.

Further, I can indicate that the Bank has taken a decision that, effective tomorrow, the interest rates at which we provide liquidity to deposit taking institutions will be reduced by 50 basis points. So, for example, the rate on the Standing Liquidity Facility, which is an overnight lending facility for banks, was 9.50 per cent in March. At the end of June, it was reduced to 8.75 per cent. With the adjustment I am announcing today, the rate on this facility will fall to 8.00 per cent.

As a consequence of the easing of monetary policy in April, Treasury Bill and other money market rates fell during the June quarter. The Bank's rate cut last week as well as the reduction announced today are likely to have a similar effect on money market rates during this quarter.

Moving on to other indicators, growth is faster than last year but slower than we were hoping for. The Bank currently forecasts real GDP to expand within the range of 1.0 to 2.0 per cent for this fiscal year. We are expecting a recovery from the production disruptions of the previous fiscal year but are also taking account of the adverse impact of the current drought on Agriculture, Forestry & Fishing and Electricity and Water Supply. We are also expecting that the economy will continue to benefit from improvements in the business environment and external competitiveness.

The recent survey of business confidence, conducted in the June 2015 quarter, shows that positive sentiment about the economy within the business community remains strong. Encouragingly, a significant proportion of respondents reported that their profits were higher or similar to their previous results. A significant proportion also believed that it was a good time to expand capacity and that the economy would improve during the year ahead. It appears that the Jamaican stock market is also reflecting these sentiments with increases in stock prices and trading volumes across all economic sectors represented by listed companies.

The current account of the balance of payments for the March 2015 quarter reflected a modest surplus of US$39.4 million, the first quarterly surplus in 11 years. A strong contributor to the surplus was Tourism which has shown an average increase of 4.5 per cent in stopover arrivals over the past four years. The current account deficit is estimated to have narrowed in the June quarter, compared to the June quarter last year. This is on the back of moderate growth in arrivals and remittances and an improvement in merchandise trade. Aided by lower oil prices, the current account is anticipated to contraction to around 3.0 percent of GDP for this fiscal year as a whole and will be fully covered by the estimated FDI flows of 4.0 to 5.0 per cent of GDP.

It is also encouraging that the net international reserves ("NIR") have continued to trend upwards. The Bank has comfortably met the NIR target under the Extended Fund Facility agreement with the IMF for each of the nine quarterly reviews so far. The more buoyant NIR outcomes were the result of improvements in net private capital inflows and sharper-than-anticipated declines in the current account deficit of the balance of payments.

The economic transformation underpinning these developments has been anchored by the implementation of the programme of structural reforms and the fiscal discipline being demonstrated by the government. The recent government bond issuance that raised US$2.0 billion at long maturities and record low rates in the international capital market signals very strong investor confidence in Jamaica. The government is now fully financed for this fiscal year and, having completed the US$1.5 billion PetroCaribe debt buyback, the fiscal position and debt ratios are better than before.

One consequence of this will be the large injection of liquidity into the financial system that will occur when the government repays the first of the maturing NDX bonds in February 2016. At $62 billion, this represents an unprecedented event that should exert a powerful force upwards on the relative prices of domestic assets and downwards on the cost of money in Jamaica. This is likely to present a challenge to margins in the financial sector and to returns for those who rely on investments in government paper. It will, however, be positive for business confidence, job creation and faster economic growth.

Thank you.