

27 March 2019

BANK OF JAMAICA LOWERS POLICY RATE

Bank of Jamaica announces its decision to lower the policy interest rate (the rate offered on overnight balances¹ at Bank of Jamaica) by **25 basis points** to **1.25 per cent**.

The decision to lower the policy rate is aimed at supporting inflation returning to and remaining on target (4.0 per cent to 6.0 per cent) by December 2020. The rate reduction is intended to stimulate an even faster expansion in private sector credit which should lead to higher economic activity, consistent with the inflation target.

Inflation

At Bank of Jamaica's last assessment in February 2019, inflation was projected to fall below the target at several points over the next year before slowly approaching the midpoint of the target over the medium term. In the near term (that is, over the next eight quarters), the key sources of upward price pressure were expected to emanate from (1) increases in domestic agriculture prices to more normal levels, (2) some imported inflation caused by a moderate increase in crude oil prices and (3) an improvement in domestic demand conditions resulting from Bank of Jamaica's accommodative monetary policy stance over the past 18 months. The risks to the forecast were assessed to be balanced.

The Bank's current assessment suggests that the risks to the inflation forecast have shifted to the downside (that is, inflation could be lower). Annual inflation at February 2019, as reported by the Statistical Institute of Jamaica, was 2.4 per cent, relative to 2.3 per cent at January 2019 and 4.4 per cent at February 2018. February 2019 is the third consecutive month that inflation has been below the target. Meanwhile, all measures of underlying inflation at February 2019 continued to be low. This suggests that recent improvements in economic activity have not been sufficient to return inflation to the target as quickly as desired.

Inflation is now more likely to trend below the projected path, mainly due to expectations for a lower-than-projected pass-through of international oil prices to domestic energy costs. In addition, the prospect of favourable weather conditions could result in lower-than-anticipated increases in agricultural prices.

¹ See Bank of Jamaica Market Notice - Policy Changes - 22 February 2019 at http://www.boj.org.jm/uploads/news/bank_of_jamaica_market_notice_-_policy_changes_-_22_february_2019.pdf

Other Economic Variables

Over the next two years, the economy is likely to continue reflecting some slack (that is, projected GDP growth being lower than Bank of Jamaica's estimate of potential GDP growth). Growth prospects are heavily contingent on continued expansion in construction and mining, which both carry some downside risk. Global growth is also likely to be slower than previously anticipated over the period and could present a downside risk to domestic growth from weaker external demand.

That said, real GDP growth could also turn out to be somewhat higher than previously anticipated, largely based on the impact of the recently announced fiscal stimulus. There have also been positive developments in private sector credit, which is likely to expand faster than previously anticipated. Commercial bank credit to the private sector expanded year-over-year by 18.6 per cent at January 2019, above the expansion of 14.4 per cent at December 2018.

Other macroeconomic indicators continue to be positive. Foreign reserves remain above the level deemed to be adequate, market interest rates are low, the external accounts remain sustainable, labour market conditions are improving and fiscal performance is strong.

The next policy decision announcement date is 17 May 2019.