

17 May 2019

BANK OF JAMAICA LOWERS POLICY RATE

Bank of Jamaica announces its decision to lower the policy interest rate (the rate offered on overnight balances with Bank of Jamaica) by **50 basis points** to **0.75 per cent** per annum, effective 20 May 2019.

This decision reflects Bank of Jamaica's assessment that, while inflation is expected to increase to average 4.5 per cent over the next eight quarters, there will be months when inflation will fall below the lower limit of the Bank's target of 4.0 per cent to 6.0 per cent in the context of low underlying inflation. The forecast is for inflation thereafter to approach the midpoint of the target gradually but at a slower pace than previously expected at the last assessment in February 2019.

As with the last decision announced in March 2019, Bank of Jamaica's decision today to lower the policy rate is intended to stimulate an even faster expansion in private sector credit which should lead to higher economic activity, consistent with the inflation target. This action will support inflation returning more quickly to the centre of the target.

Inflation

Annual inflation at April 2019 reported by the Statistical Institute of Jamaica was 3.9 per cent, up from 3.4 per cent at March 2019 and 3.2 per cent at April 2018. While annual inflation has been rising, underlying inflation remained low.

Bank of Jamaica anticipates that inflation will rise towards the mid-point of the target by the March 2020 quarter as (i) domestic agriculture prices increase from the low levels of recent months to more normal levels and (ii) domestic economic activity increases in response to the lowering of the policy rate over the last eight quarters.

However, inflation is not expected to stay at the mid-point of the target but will decline towards the bottom of the target in the period after the March 2020 quarter and only return to the mid-point slowly over the ensuing three years. This outlook carries a material risk that inflation will fall below the target again during that period in the absence of a policy response.

Of note, the projected trajectory of inflation is lower than previously forecasted. This reflects the Bank's view that inflation expectations are lower than previously assessed and the projected pace of expansion in domestic demand in the period after the March 2020 quarter will be slower due to headwinds from the global economy.

The risks to the inflation forecast are assessed to be balanced. The main upside risk, which could cause inflation to be higher than forecasted, is the possibility of higher-than-

anticipated crude oil prices. The main downside risks, which could cause inflation to be lower than forecasted, include better-than-anticipated production in the agriculture sector which could lead to lower food-price inflation. In addition, growth could be lower than projected if global trade tensions escalate.

Other Economic Variables

Other macroeconomic indicators continue to be positive. Foreign reserves remain above the level deemed to be adequate, the current account of the balance of payments remains sustainable, market interest rates are low, labour market conditions continue to improve and fiscal performance is strong.

The next policy decision announcement date is 27 June 2019.