

02 October 2018

## **BANK OF JAMAICA MAINTAINS POLICY RATE**

Bank of Jamaica announces its decision to hold the policy interest rate (the rate offered on overnight placements with Bank of Jamaica) **unchanged at 2.00 per cent**.

### **Inflation**

This decision reflects the Bank's assessment that inflation, currently below target, will be within the 4.0 per cent to 6.0 per cent target range by the March 2019 quarter. Thereafter, inflation is projected to rise to the middle of the target. The Bank's assessment is supported by the twelve-month inflation rate at August 2018 which rose to 3.9 per cent from 2.8 per cent in June 2018.

The Bank's outlook for inflation for the remainder of 2018 and the first part of 2019 continues to be predicated on the expectation that agricultural food prices will rise from the low levels recorded in April and May 2018, elevated international oil prices and the faster-than-expected exchange rate depreciation in the May to August period. In addition, while the Bank's July 2018 survey indicated that private sector expectations of inflation twelve months ahead remain anchored in single digits (5.2 per cent), inflation expectations were higher than in the previous survey.

The risks to the inflation forecast are skewed to the upside, implying that inflation may return to the target more quickly than anticipated. Over the short run, agricultural prices may rise faster than expected while energy-related prices may move higher than initially projected. International grains prices, which have been rising, may trend upwards faster than earlier anticipated.

Downside risks to the inflation forecast include weaker-than-projected domestic and international demand and lower-than-projected international commodity prices.

### **Economic Outlook**

Macroeconomic indicators continue to be positive. Net international reserves are above the level deemed to be adequate; real GDP growth, while modest, is accelerating; market interest rates are at record lows; and fiscal performance continues to be strong.

Recent developments suggest that, while there remains some slack in the economy (i.e., projected GDP growth is less than the Bank's estimate of potential GDP growth), medium-term domestic demand conditions are likely to strengthen gradually against the background of continued buoyancy in the global economy and the accommodative monetary conditions induced by the Bank over the past year. In this context, GDP grew by 2.2 per cent for the June

2018 quarter, which was above the Bank's estimate and above the growth rate for the March 2018 and the June 2017 quarters.

The pick-up in GDP growth was supported by faster credit growth. Credit extended by deposit-taking institutions (DTIs) to the private sector expanded year over year by 16.7 per cent at July 2018 (13.1 per cent in real terms), compared to growth of 15.9 per cent (12.7 per cent in real terms) at June 2018 and 11.2 per cent (6.7 per cent in real terms) at July 2017. Emerging buoyancy in the credit market was reflected in an overall improvement in credit market conditions in the June 2018 quarter, relative to the March 2018 quarter. The Bank's survey of credit conditions indicated that better lending conditions were evident in the quarter for both secured and unsecured loans for all business sizes. The survey also indicated that, on average, interest rates on new loans in local currency fell by 74 bps to 14.56 per cent during the June 2018 quarter and mainly reflected reductions for loans to micro and small enterprises and loans for personal purposes.

Bank of Jamaica's decision to maintain an accommodative policy stance seeks to reinforce these positive emerging signs of accelerated private sector credit growth. Monetary conditions in the domestic market are increasingly accommodative and credit is likely to grow at a slightly higher pace than was previously anticipated. The increase in economic activity is expected to support the return of inflation to the target with greater certainty.

The next policy decision announcement date is 16 November 2018.