

27 June 2018

BANK OF JAMAICA LOWERS POLICY RATE

Bank of Jamaica announces its decision to lower the policy rate (the interest rate offered on overnight placements with Bank of Jamaica) by 50 basis points to **2.00 per cent**, effective 28 June 2018.

In March, April and May 2018, inflation fell below the lower end of the Bank's inflation target of 4.0 per cent to 6.0 per cent.

Core inflation (measured by changes in the CPI excluding agriculture and fuel) has also been low, in the region of 2.0 per cent to 3.0 per cent. The main factors that contributed to inflation being lower than the target included a stronger-than-anticipated recovery in agricultural supplies following adverse weather shocks in 2017, lower-than-forecasted imported inflation (associated with an appreciation in the Jamaican dollar over the year to April 2018 and a reduction in the pass-through of oil prices to inflation) and weaker-than-anticipated domestic demand.

Bank of Jamaica's decision to increase monetary policy accommodation reflects its assessment that (i) inflation over the June 2018 to December 2018 quarters is likely to remain below the target of 4.0 per cent to 6.0 per cent and (ii) the previously projected increase in inflation towards the centre of the target in the March 2019 quarter is at risk.

The Bank's view on inflation for the remainder of 2018 is largely predicated on expectations for continued weak domestic demand, which is being constrained by tight fiscal policy and increased uncertainties about global trade. The assessment also reflects the expectation for agricultural food prices to remain low for longer than previously anticipated and the possibility that international oil prices could be lower than previously projected. In the medium-term, the Bank's outlook for inflation continues to reflect a sluggish recovery in economic activity (real GDP).

The decision to loosen the policy stance is aimed at fostering greater credit expansion and a faster pace of GDP growth which will support inflation returning to the target of 4.0 per cent to 6.0 per cent.

The next policy decision announcement date is 28 August 2018