



**Quarterly Monetary Policy Report
Press Conference**

Brian Wynter

Governor

Bank of Jamaica
21 February 2019

Ladies and gentlemen,

Good morning and welcome to Bank of Jamaica's quarterly monetary policy press conference and the presentation of the Quarterly Monetary Policy Report for the December 2018 quarter.

I have pleasure in introducing to you this morning our two new deputy governors. Mrs Natalie Haynes, a Bank of Jamaica veteran, is now the deputy governor responsible for the Banking, Currency Operations and Financial Markets Infrastructure portfolio. She is also continuing to oversee the Financial Markets portfolio (which covers the Bank's market operations activities) until the new position of Executive Director, Financial Markets has been filled. Mr George Roper, who joined us a few years ago in the role of Supervision Expert, is now the deputy governor overseeing the Finance, Technology and Administration portfolio. Please welcome them to their first quarterly press conference.

Monetary Policy Decision

Yesterday, Bank of Jamaica announced its decision to lower the policy interest rate (that is, the rate offered on overnight placements with Bank of Jamaica) by **25 basis points** to **1.50 per cent**.

This decision reflects the Bank's forecast that inflation, which is currently below the target of 4.0 per cent to 6.0 per cent, will again fall below the target at various times over the next eight quarters in the context of low core inflation and large seasonal increases and reductions in agricultural prices. Inflation will then slowly approach the midpoint of the target over the medium term.

Inflation can, however, return to the target sooner if the pace at which private sector credit is expanding is increased. Yet signs are emerging that private sector credit is expanding at a slower pace instead of at a faster pace even as lending rates at commercial banks continue to fall. For example, credit extended by deposit-taking institutions to businesses and households

grew by 13.2 per cent over the 12 months to December 2018, compared to 16.2 per cent over the 12 months to September 2018.

Increasing the pace of expansion in private sector credit will stimulate increased economic activity by businesses and households across Jamaica. More economic activity by businesses and households will bring with it a bit more inflation and, in that way, will support inflation returning to the centre of the target more quickly. The decision to lower the policy rate to 1.50 per cent is therefore aimed squarely at stimulating this pick-up in the pace of expansion in private sector credit. It is not aimed at influencing the exchange rate.

Bank of Jamaica also announced yesterday that it is reducing the cash reserves that deposit-taking institutions are required to hold against their prescribed liabilities. Effective 01 March 2019, the cash reserve requirement will be reduced by three percentage points to nine per cent, releasing \$16.8 billion to deposit-taking institutions. This will improve their ability to provide more credit to households and businesses at lower rates and on better terms. Bank of Jamaica intends to make further reductions in the cash reserve requirement over the course of the year based on assessments of market conditions.

The liquid assets requirement is also being reduced by the same amount but no changes are being made to the cash reserve and liquid assets requirements for prescribed liabilities denominated in foreign currencies.

Inflation Performance Relative to Target & Revised Outlook

In STATIN's latest release, annual inflation at January 2019 was 2.3 per cent, down from 2.4 per cent at December 2018 and 4.8 per cent at January 2018. This means that inflation fell below the target for the second month in a row. Inflation continues to be influenced by the lagged impact of the fall in international oil prices last year and unseasonably high supplies of agricultural items, which, starting in December 2018, caused a sharp fall in agricultural food prices. The lower international oil prices led to lower prices for electricity, water, sewage and petrol.

When inflation falls below the target, Bank of Jamaica is required to explain to the Minister of Finance and the Public Service the reasons for the deviation from target and the policy actions, if any are needed, that the Bank will take to return inflation to the target. Bank of Jamaica will shortly be providing this explanation to the Minister and it is expected that the exchange of correspondence will be made available to the public in due course. Further details on the factors that contributed to inflation falling below target can also be found in a box in the Quarterly Monetary Policy Report being released today.

Looking ahead, inflation is projected to increase near to 5.0 per cent in the June 2019 quarter. This acceleration will come from rising food prices as agricultural supplies fall back to normal levels. Higher inflation is also expected to come from increases in prices for processed foods, energy and transport services driven by the expected uptick in oil prices. However, the risk remains that inflation could fall below the target again over the first part of fiscal year 2019/20, given the large seasonal increases and reductions that we have seen in agricultural supplies and prices.

The medium-term forecast is for inflation to rise slowly to the midpoint of the target. This forecast path is lower than the one discussed at our previous press briefing in November 2018 when we anticipated a faster rise towards the midpoint of the target. The revised outlook reflects a more moderate pace of expansion in domestic demand due to a lower projected growth rate in the global economy and a smaller increase in crude oil prices, compared to what we had expected in November. A discussion on developments in international oil prices can be found in a box in the QMPR.

Risks to the Forecast

Bank of Jamaica has assessed the risks to the inflation forecast over the next two years to be generally balanced. The main upside risks that would cause inflation to be higher than our forecast include higher-than-anticipated international commodity prices, particularly for crude oil. Higher-than-forecasted inflation could also be caused by production disruptions in the

agricultural sector due to adverse weather conditions. A downside risk to inflation that could cause inflation to be lower than expected is the possibility that domestic demand does not strengthen, thereby tempering any increase in prices.

Macroeconomic Developments & Outlook

With respect to the macroeconomic outlook, the prospects for the economy remain positive as economic output continues to show signs of recovery although the economy is nevertheless estimated to be operating below its potential.

Real GDP growth is estimated to have accelerated in the range of 1.5 per cent to 2.5 per cent in the December 2018 quarter, above the 1.2 per cent recorded in the December 2017 quarter. The Bank assesses that this pace of growth predominantly reflected improvements in external demand, investment and, to a lesser extent, private consumption. The key economic sectors reflecting increased economic activity included Mining & Quarrying, Construction and Tourism.

In the absence of a policy response, such as those announced yesterday, Bank of Jamaica projects that GDP growth would remain close to current rates over the next two years and the economy would continue to operate below its potential with muted inflationary pressures.

Labour market conditions continue to improve. The unemployment rate fell to 8.7 per cent in October 2018 from 10.4 per cent a year earlier. We expect to see further improvements in labour market conditions over the next two years with more jobs in mining & quarrying, manufacturing, finance & insurance and business process outsourcing.

Overall, Jamaica's macroeconomic indicators continue to reflect entrenched stability. Foreign reserves are above the level deemed adequate and the current account deficit remains low and sustainable. Market interest rates are at historic lows and fiscal performance continues to be strong.

Thank you.