Quarterly Monetary Policy Report

Press Conference

Brian Wynter

Governor

Bank of Jamaica

21 May 2018

Good morning and welcome to the Quarterly Monetary Policy Report press conference.

The Monetary Policy Decision

As you are aware, Bank of Jamaica on 16 May 2018 announced the third monetary policy decision for the year. This was in accordance with the preannounced schedule of dates for monetary policy announcements in 2018.

The monetary policy decision was to lower the policy rate (the interest rate paid on overnight deposits at Bank of Jamaica) by 25 basis points to 2.50 per cent.

This policy change reflects the Bank's assessment that inflation over the next three quarters will fall below the lower end of the Bank's target of 4.0 per cent to 6.0 per cent before increasing towards the centre of the target in the March 2019 quarter.

You may recall that the Bank's policy actions are forward-looking and that we did forecast the risk that inflation could be close to the lower end of the target range in the March 2018 quarter. In that regard, since the switch to the overnight interest rate as the policy rate in July 2017, Bank of Jamaica has lowered the policy rate five times by a total of 125 basis points. There is reason to be concerned, however, that this adjustment has not so far been enough to stimulate economic activity to levels consistent with the inflation target. Therefore, notwithstanding the projected modest increase in inflation in the near term, there may still be a need for further and more robust downward adjustments in the policy rate to overcome the sluggishness of the ongoing economic recovery.

Inflation Performance Relative to Target

The most recent information released by STATIN indicates that headline inflation at April 2018 was 3.2 per cent. This was materially below the Bank's target of 4.0 per cent to 6.0 per cent. April's inflation was also lower than the 3.9 per cent at March 2018 and the 5.2 per cent recorded at December 2018. Inflation was lower than the target mainly due to the sharper-than-anticipated decline in agriculture prices since January 2018, reflecting the recovery in agriculture output. The lower inflation was also due to an unusually sharp decline in electricity costs in April.

Given these numbers, the Bank's projected path for inflation over the next fiscal year is slightly lower than the one presented at our press conference in February. The projected path now incorporates the impact of the decline in agricultural food prices but also the impact of the upturn in crude oil prices since July last year. The recent upturn in grains prices is also included.

Macroeconomic Developments and Outlook

The economy has continued to show signs of a gradual but sluggish recovery. For the March 2018 quarter, output is estimated to have expanded in real terms by1.0 per cent to 2.0 per cent, above the 0.1 per cent recorded in the March 2017 quarter and above the 1.1 per cent expansion in the December 2017 quarter. The estimate for the March 2018 quarter reflects some growth in net exports.

With the improving economy, conditions in the labour market have improved markedly while not yet presenting a major risk to inflation. The unemployment rate in January 2018 fell to 9.6 per cent, the lowest it has been in over ten years. The fall in unemployment reflected the addition of more than 22,000 net new jobs

Bank of Jamaica projects a modest acceleration in economic growth over the next two years. However, **inflation pressures from spending in the economy are expected to remain contained as GDP growth, projected at 1.5 per cent to 2.5 per cent per quarter, continues to grow below potential.** This forecast is supported by buoyant conditions in the US and some of Jamaica's other major trading partners. The forecast also assumes that domestic demand will remain restrained by continued fiscal consolidation and **inflation expectations will remain low and anchored at the lower end of the Bank's target.**

Along with projected growth in GDP, labour market conditions will continue to improve over the next two years, which may, at some point, support wage-related inflation in Jamaica if labour productivity does not improve.

Risks to the Forecast

The risks to the inflation forecast are skewed to the downside. The major downside risks include weaker-than-anticipated domestic demand conditions and slower-than-anticipated global economic growth. The latter risk is associated with nascent geo-political tensions and protectionist policies that have surfaced over the last two quarters. There is also an upside risk to inflation from higher-than-projected crude oil prices but our current assessment is that crude oil prices will eventually fall as geo-political uncertainties wane and the impact of excess supplies prevails on the market. Adverse weather may also cause domestic agricultural prices to rise faster than anticipated.

B-FXITT Update – Buy Operations

You will recall our announcement at the last press conference that the Bank had commenced preparations to introduce buy operations under B-FXITT when the time was right. Well, you will have seen that competitive buy operations commenced on 11 April 2018. From all indications, the foreign exchange market has adjusted well to this new method of interaction with Bank of Jamaica. The market is displaying increased foreign currency volumes with more trading being observed among the authorised dealers and cambios.

Ladies and gentlemen, Jamaica's macroeconomic indicators continue to improve. Inflation is low, net international reserves are increasing and the current account of the balance of payments, while projected to widen, will remain at sustainable levels. Market interest rates are at record lows and still falling while fiscal performance remains strong. In the context of the benign outlook for inflation, Bank of Jamaica will continue to have an accommodative policy stance aimed at steering inflation towards the Bank's target of 4.0 to 6.0 per cent.

Thank you.