Quarterly Press Briefing

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Good Morning, Ladies and Gentlemen:

This morning the Bank is releasing the Quarterly Monetary Policy Report for the September 2013 quarter. As is customary, I will give a synopsis of the analyses contained in the report, including the Bank's outlook for macroeconomic developments over the near term. However, before I do that I will briefly update you on the progress Jamaica is making under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF).

Performance under the IMF Extended Fund Facility - September 2013 Quarter

Provisional data suggest that, at end-September, the quantitative targets under the EFF were comfortably met. These targets included those for the Central Bank: the net international reserves (NIR) which amounted to US$912.3 million relative to the floor of US$761.2 million and the cumulative increase in the net domestic assets (NDA) of J$15.7 billion compared to the ceiling of J$28.9 billion. Similarly, information from the Ministry of Finance indicates that the primary surplus and tax revenue targets were met. The change in Central Government's debt stock was also below the ceiling. In addition, with the agreed extension of the schedule for tabling the fiscal incentives legislation to October, the Government met all the structural benchmarks.

As you are aware, a team from the IMF recently conducted the second review of Jamaica's performance under the EFF. Once confirmed by the IMF's Board in December, a successful review will facilitate a drawdown of SDR 19.7 million (about US$30 million) under the EFF and will facilitate the release of at least US$270 million of additional financing from our other multilateral partners. The accumulating evidence that the Government is adhering to its commitments and is undertaking the far reaching reforms that are critical to the country's long term growth and development should help to boost investor confidence.

Developments in the September 2013 Quarter

The International Economy

The Bank's estimates suggest that there was a marginal acceleration in the pace of growth in the global economy in the September 2013 quarter relative to the previous quarter. This faster growth largely reflected the performance of the USA and China, the impact of which was tempered by estimated slower expansion in the Japanese economy. The flash estimate from the USA indicated that that economy expanded by 2.8 per cent in the review quarter following growth of 2.5 per cent in the June quarter. Stronger growth in Jamaica's major trading partner bodes well for increased demand for goods and services from Jamaica as well as expansion in remittance inflows in ensuing quarters.

For the review quarter, crude oil prices rose by 12.3 per cent to an average of US$105.83 per barrel. This spike in oil prices was largely attributable to tensions in Egypt and concerns about a possible USA-led military strike on Syria. However, there was a general decline in the average price of international grains largely due to favourable weather and good harvests in major producing countries. Of note, the sharp increase in crude oil prices contributed to a deterioration in Jamaica's terms of trade for the quarter.

Monetary Policy and Financial Markets

The interest rate payable on the Bank's 30-day certificates of deposit (CD) was maintained at 5.75 per cent throughout the review quarter. This was informed by the outlook that inflation for the fiscal year would be within the target range of 8.5 per cent to 10.5 per cent.

During the review quarter, the Bank continued to offer longer-tenor variable rate CDs along with the normal 30-day and overnight instruments. The Bank also used 14-day repurchase agreements to provide liquidity on a regular cycle to financial institutions to enhance their ability to manage under periodic tight liquidity conditions. In this regard, the Bank's open market operations and its purchase of foreign exchange resulted in a net injection of liquidity into the system for the quarter.

In spite of the net injection by the Bank, liquidity in the system remained relatively tight and concentrated. This situation contributed to a general increase in market-determined interest rates in the quarter with increases in GOJ Treasury Bill yields relative to the previous quarter. At end-September, the average yield on the 30-day, 90-day and 180-day Treasury Bills were 6.32 per cent, 7.42 per cent and 7.96 per cent, respectively, compared to 6.02 per cent, 6.76 per cent and 7.12 per cent at end-June 2013.

The deficit on the current account of the balance of payments continued to drive depreciation in the exchange rate for US Dollars during the review quarter, as demand for foreign exchange to pay for imports of goods and services continued to exceed export flows by a considerable margin. Seasonally higher demand for imports of raw materials and consumer goods contributed to the pressure in the foreign exchange market. Notably, though, the rate of depreciation continued to slow to 2.1 per cent in the quarter following the depreciation of 2.5 per cent in the June 2013 quarter.

Inflation
For the September quarter, headline inflation was 3.7 per cent, above the Bank's projected range of 2.0 per cent to 3.0 per cent, and the 12-month point-to-point inflation rate at the end of September was 10.5 per cent relative to 6.7 per cent at September 2012.

You will recall that when we last met I had indicated that one of the near-term risks to our forecast was the likely administrative adjustment in transportation costs. In September, this risk materialized with an increase of 25 per cent in the cost of public transportation. Against this background, inflationary impulses in the review quarter largely emanated from the increase in bus and taxi fares as well as seasonally higher costs associated with the summer holidays and preparations for the start of the new school year. Additionally, there was inflationary pressure from the lagged pass-through of depreciation in the exchange rate to prices which was exacerbated by the spike in crude oil prices in the review period. The impact of these factors was tempered by lower costs for communication and international grains as well as continued relatively weak domestic demand conditions.

Real GDP Growth
The Bank's estimates suggest that that there was a return to growth in real GDP for the September quarter following six consecutive quarters of contraction. The modest estimated expansion in the review quarter reflected improved performance in *Agriculture*, *Forestry & Fishing*, *Mining & Quarrying*, *Hotels & Restaurants* and *Construction & Installation*. Improvement in external demand is assessed to have been the primary driver of the expansion in economic activity in the quarter as consumption is estimated to have declined reflecting the impact of on-going fiscal consolidation and declining real incomes.

Outlook for the December 2013 Quarter & FY2013/14

The Bank is projecting moderation in headline inflation within the range of 2.0 per cent to 3.0 per cent for the December 2013 quarter. This forecast primarily reflects the impact of the recent increase in the tariff for water rates and seasonally higher prices for some domestic agriculture products. It is also expected that there will be some lagged pass-through of exchange rate depreciation to prices but, in the context of continued weak demand conditions, we are projecting that this pass-through will be at the lower levels which have been observed for the fiscal year to date, relative to previous years. Furthermore, continued declines in international grains prices are expected to have a countervailing impact on inflation in the quarter. Given the outturn to date and the forecast for the December quarter, the Bank is projecting that inflation for the fiscal year will fall within the target range of 8.5 per cent to 10.5 per cent.

For the December quarter, the Bank is expecting the seasonal increase in demand in the foreign exchange market. This demand should reflect lower net private capital inflows. However, demand for foreign currency to facilitate current account transactions should abate with the forecast for a moderation in international commodity price increases, particularly that of crude oil. In addition, there is expected to be the seasonal increase in tourism and remittance inflows.

Growth in real GDP for the December 2013 quarter is projected to continue at the pace observed in the September quarter. This outlook is predicated on the forecast for a strengthening in global growth. In addition, it is expected that continued implementation of the policies under the EFF will provide a boost to investor confidence. However, domestic demand conditions are expected to remain relatively weak over the near term. In this regard, the projection for growth in domestic output for the full fiscal year remains at 0.0 per cent to 1.0 per cent. Similar to the estimate for the September quarter, growth is expected to be driven largely by *Agriculture, Forestry & Fishing*, *Mining & Quarrying*, *Hotels & Restaurants* and *Construction & Installation.*

The risks to the projection for inflation and economic growth are currently balanced. The possibility of adverse weather conditions, higher than expected international commodity prices and a stronger than expected pass-through of the movement in the exchange rate are the main upside risks to inflation. Countervailing risks include sharper than expected declines in international commodity prices and weaker than anticipated domestic demand. With respect to economic growth, adverse weather, a slowdown in the global economy and weaker than anticipated domestic demand could derail the forecast. However, stronger than expected world growth and an improvement in investor confidence could engender faster than projected growth in the domestic economy.

In the context of the expected modest recovery in the domestic economy and continued low pass-through of movement in the exchange rate to prices, the Bank expects to maintain the current accommodative monetary policy stance. The Bank remains committed to achieving inflation with the target for this fiscal year and the gradual reduction over the medium term. This objective will be met in the context of a flexible exchange rate regime.

Thank you.