BANK OF JAMAICA

News Release

14 June 2012

Remarks by
Governor Brian Wynter on
Inflation Outlook FY2012/13

In our last quarterly presentation of the economic outlook for FY2012/13, the forecast for inflation was conditioned on the provisions that were to be announced in the fiscal budget. Those measures, consisting mainly of expenditure containment and revenue enhancements including new and adjusted taxes, were announced on 06 June and were designed to yield a primary surplus of 6.0 per cent of GDP for this fiscal year.

The most immediate impact will be a short-lived spike in consumer prices.

The deeper and more lasting impact will be to underwrite macroeconomic stability by tackling decisively the debt threat, reducing government's demand for financing and freeing up resources for private sector investment and growth. This creates and sustains the conditions for low inflation, low interest rates and a stable exchange rate.

The estimate for the direct impact of tax policies is 2.9 percentage points (pps) with an assumption of 0.5 pps for indirect effect (e.g. second round effect of electricity on produced goods and services). Most of the direct impact will be reflected in *Food & Non-Alcoholic Beverages*, *Recreation & Culture* (e.g. recreation and sporting services) and *Restaurant & Accommodation Services*.

Most of the increase is expected in the June quarter with inflation projected to be in the range of 3.0 per cent to 5.0 per cent. Inflation will slow down in the subsequent quarters reflecting a sharp return to normal levels as the inflationary impulses from the tax measures subside. So, for the September quarter, inflation is projected to be in the range of 2.5 per cent to 3.5 per cent**. A further deceleration to 1.0 per cent to 2.0 per cent per quarter is expected for the second half of the fiscal year, ie, from October onwards.**

The projected deceleration in inflation is supported by the forecast for imported commodity prices which, given the uncertainty in the world economy, are not expected to increase significantly.

Overall, then, inflation for FY2012/13 is expected to be in the range **10.0 per cent to 12.0 per cent**. This represents an increase relative to inflation of 7.3 per cent in FY2011/12 but is expected to revert to a range of 6.0 per cent to 8.0 per cent by FY 2013/14.

Bank of Jamaica