

29 June 2020

BANK OF JAMAICA HOLDS POLICY RATE

Bank of Jamaica announces its decision to hold the policy interest rate (the rate offered to deposit-taking institutions on overnight placements with Bank of Jamaica) unchanged at **0.50 per cent per annum**.

The decision to hold the policy rate unchanged is based on the Bank's continued view that monetary conditions are generally appropriate to support inflation remaining within the target of 4.0 per cent to 6.0 per cent over the next two years. The economic outlook for Jamaica remains highly uncertain in the context of the ongoing COVID-19 pandemic. Bank of Jamaica will continue to assess incoming data and stands ready to implement other policy measures, if the need arises.

Inflation

Annual inflation at March 2020, as reported by the Statistical Institute of Jamaica, was 4.8 per cent, lower than the 6.2 per cent at December 2019 and firmly within the target range. Underlying or core inflation, which measures the change in prices excluding agricultural food and fuel prices, remained relatively low at 3.3 per cent.

At our assessment in May 2020, Bank of Jamaica's forecast was for inflation to average 4.4 per cent over the next two years. The forecast was mainly predicated on the impact of the COVID-19 pandemic, which was expected to induce a deceleration in agricultural food prices and a decline in energy and transport related costs. In addition, the forecast included the impact of administered price increases.

Bank of Jamaica's current assessment is that inflation is likely to be slightly higher than previously forecasted over the forecast period but is still expected to track within the target range of 4.0 per cent to 6.0 per cent. This updated view of the inflation outlook stems from expectations for higher agriculture prices as well as higher energy and transport costs, compared with the Bank's earlier forecast. In addition, upward price pressures could emanate from higher than expected aggregate demand, consistent with an earlier than expected re-opening of the economy as well as a more expansionary fiscal stance.

Other Economic Variables

At the assessment in May 2020, Bank of Jamaica's forecast anticipated that, for the current fiscal year (June 2020 to March 2021 quarters), the Jamaican economy would contract, on

average, by 5.1 per cent. In the following year (up to the March 2022 quarter), the Jamaican economy is projected to partially recover, with real GDP growth in the range 2.5 per cent to 5.5 per cent. The fall in real GDP in FY2020/21 was expected to be mainly reflected in *Hotels & Restaurants, Mining, Wholesale & Retail, Transport, Storage & Communication* and *Other Services*. These expected declines are largely based on the adverse impact of the global COVID-19 pandemic on travel, production, distribution and entertainment activities.

The Bank's current assessment suggests that the risks to the forecast for GDP are slightly skewed to the upside, suggesting the possibility of a better than previously anticipated outcome. The Government's announcement of the re-opening of Jamaica's international ports to incoming passengers in June is a key development that could contribute to improved growth prospects for the economy and is supported by the prospects of stronger economic activity in the USA. However, material downside risks to economic activity remain.

At our assessment in May 2020, the current account deficit (CAD) of the balance of payments (BOP) was projected to deteriorate to 7.5 per cent of GDP for FY2020/21, mainly due to the forecast of a sudden stop in visitor arrivals due to the closure of borders to visitors until September 2020, as well as a significant decline in remittance inflows. The CAD was projected to improve gradually over the medium term. Given recent developments, particularly the earlier than anticipated re-opening of Jamaica's borders in mid-June 2020 and a stronger performance of remittance inflows, the CAD could likely be lower than previously anticipated.

Monetary Policy

Bank of Jamaica remains committed to ensuring that inflation remains low and stable within its target and, at the same time, is prepared to take all necessary actions to ensure that Jamaica's financial system remains sound.

The next policy decision announcement date is 18 August 2020.