

30 September 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**.

Jamaica continues to grapple with the challenge of the COVID-19 pandemic and the adverse impact on economic activity. Bank of Jamaica has therefore kept the policy rate at the historic low of 0.50 per cent given our view that, in these circumstances, inflation will remain within the target of 4.0 per cent to 6.0 per cent and economic activity will remain weak. The economic outlook for Jamaica remains highly uncertain in the context of the ongoing COVID-19 pandemic but Bank of Jamaica will continue to assess incoming data and stands ready to implement other policy measures if the need arises.

Inflation

Annual headline inflation at August 2020, as reported by the Statistical Institute of Jamaica, fell to 5.1 per cent from 6.3 per cent at June 2020. Underlying or core inflation, which measures the change in prices excluding agricultural food and fuel prices, was 4.6 per cent at August 2020, above the 4.1 per cent at June 2020.

Bank of Jamaica's current assessment remains consistent with our August projection that inflation will average 4.7 per cent over the next two years and will track within the target range of 4.0 per cent to 6.0 per cent. This forecast was mainly predicated on expectations for some economic recovery from the COVID-19 pandemic as well as higher energy and agricultural food prices.

The risk to the inflation forecast is balanced. One factor that could cause the inflation rate to be lower than forecasted is weaker than expected domestic demand. However, factors that could cause inflation to be higher than expected include:

- (i) accelerated depreciation in the exchange rate that is sustained;
- (ii) a stronger than expected response of the prices of some food items as well as health and personal care goods and services to the shift in consumer expenditure in the context of the COVID-19 pandemic;
- (iii) stronger than anticipated increases in international oil prices; and
- (iv) higher agriculture prices, given the current active hurricane season.

Economic Activity

As we had reported previously, Bank of Jamaica is forecasting a contraction in the economy in the range of 7.0 per cent to 10.0 per cent in FY2020/21 before partially recovering within the range of 3.0 per cent to 6.0 per cent in FY2021/22. The projected decline in real GDP in FY2020/21 is expected to be mainly reflected in *Hotels & Restaurants, Transport, Storage & Communication, Wholesale & Retail*, 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 GDP forecast are skewed to the downside. The main reason for this assessment is the recent onset of community spread of COVID-19 in Jamaica, which could lead to increased restrictions on economic activity. In this context, there is the likelihood of a slower than anticipated recovery in the tourism sector. However, on the upside, remittances have been strong which have tempered the fall in spending and supported the buoyant inflows into the foreign exchange market.

Monetary Policy

The heightened challenges associated with the COVID-19 outbreak remain an ongoing concern and Bank of Jamaica has maintained an accommodative monetary policy stance aimed at supporting a speedy economic recovery once this crisis has passed. 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 17 November 2020.