Monetary Policy Press Statement:
QMPR Press Conference

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Good morning, ladies and gentlemen, and welcome to the Quarterly Monetary Policy Report press conference. Before I begin, let me introduce you to some old faces with new positions in the Bank's management structure. You would have been aware by now that, on the retirement of Mr. John Robinson (our senior deputy governor), Dr. Wayne Robinson stepped into his shoes. Mr. Robert Stennett, the former Division Chief for the Research and Economic Programming Division, was then promoted to fill the vacant Deputy Governor position left by Wayne. I am happy to publicly welcome these two gentlemen to their new positions and to wish them all the best.

It is also my pleasure to highlight that the Bank has reached another milestone - our 60th anniversary. A series of events will take place to commemorate this achievement starting this month and ending in May 2021. Further details will be provided in due course.

Introduction

The Jamaican economy and the global economy continue to grapple with the challenge of the COVID-19 pandemic. There is much uncertainty about the impact of this crisis and how long it will last, despite some recent positive news about a vaccine. I am happy to note that Jamaica's economic response to this crisis has been remarkable in some respects. I will elaborate more as the presentation unfolds.

On Tuesday, we announced our decision to maintain the policy rate at 0.50 per cent per annum. This decision to hold the policy rate is based on our assessment that inflation will continue to trend within the **Bank's inflation target of 4.0 per cent to 6.0 per cent over the next two years, notwithstanding the impact on agricultural prices from the recent rains.** The Bank has also maintained this highly accommodative monetary policy stance to support a speedy economic recovery once this crisis has passed and we will continue to monitor and assess our stance as new developments emerge. Ladies and gentlemen, subject to inflation remaining well behaved, we intended to maintain this monetary policy stance until there are clear signs that economic activity in Jamaica is returning to pre-covid levels.

BOJ has also been proactive in preserving financial sector stability in the context of the COVID-19 pandemic. We have provided J$76 billion (or about 4 per cent of GDP) in Jamaica dollar liquidity support to the financial system through various initiatives. These included a special bond-buying programme, a reduction in the cash reserve requirement and special bond repurchase facilities.

Bank of Jamaica has also implemented a number of initiatives aimed at providing liquidity to and ensuring the continued smooth functioning of the foreign exchange market. We introduced FX swap arrangements, conducted B-FXITT intervention sales, directly sold FX to major players in the energy sector, reduced the foreign currency cash reserve requirement and provided a US dollar bond repurchase facility. The liquidity provided to the system via these sources exceeds US$1.0 billion since March. In addition we offered US dollar-indexed bonds to investors seeking a hedge against exchange rate movements.

The Bank's combined liquidity support in Jamaican and US dollars is substantial and unprecedented, equivalent to more than 11 per cent of GDP.

Ladies and gentlemen, let me take a moment to briefly review the Bank's recent track record of guiding inflation within the 4 - 6 per cent corridor. During the past 36 months leading up to October 2020, inflation has surpassed the upper limit of the target on only two occasions. This reflects a success rate of 94 per cent in keeping inflation below 6.0 per cent. As we have explained in the past, the reason for inflation going above target on those two occasions was largely related to temporary increases in agricultural prices because of droughts or floods and these prices retreated after those events, pulling inflation down with it.

There have also been 13 occasions over the past 36 months when inflation fell below the 4 per cent lower bound of the target. Again, these events were primarily associated with volatility in agricultural prices and declines in international oil prices, which in turn influenced reductions in electricity and transport-related costs.

We highlight this inflation record to reassure businesses and individuals that any expected agricultural price increases will not continue indefinitely and any breach of the inflation target will only be temporary.

Let us now turn to the most recent inflation data and the forecast.

The current inflation rate for the 12 months leading up to October 2020, as released by the Statistical Institute of Jamaica (STATIN) on Monday, is 5.0 per cent, which again was firmly within the Bank's inflation target range. Core inflation (which excludes increases in agriculture and fuel prices) for the 12 months leading up to October 2020 was 3.6 per cent. Going forward, we expect core inflation to remain relatively low given the weak demand conditions in Jamaica.

Bank of Jamaica anticipates that consumer prices will rise as follows over the next three quarters:

December 2020	5.5 – 6.5%
March 2021	6.0 – 7.0%
June 2021	4.0 – 5.0%

We are therefore indicating that there is some risk that inflation could breach the upper end of the target range in both December 2020 and during the March 2021 quarter, an outlook that is higher than the Bank's previous forecast I shared with you in August 2020. This outlook is primarily underpinned by:

1. the impact of the recent heavy rains on agricultural supplies and prices, which is estimated to add approximately 1.0 percentage point to the inflation forecast for FY2020/21; and
2. an assumption for increases in some regulated utility prices in the December 2020 and the March 2021 quarters which, if they occur, will contribute about 0.6 of a percentage point to inflation for the fiscal year.

We again stress that these spikes will be temporary and wish to assure that, once we get through this blip, our forecast is for inflation to remain within target over the next two years.

I will now briefly discuss the impact of COVID on the broader economy. The most recent real GDP outturn published by STATIN indicated that domestic economic activity contracted significantly by 18.4 per cent for the June 2020 quarter. This is a sobering indication of how deeply the domestic economy has been impacted by the spread of the COVID-19 virus.

The pandemic has also adversely impacted employment in Jamaica. The most recent labour market data released by STATIN in October indicated that approximately 12.6 per cent of the labour force was unemployed at July 2020, up from 7.8 per cent a year earlier.

We expect that the worst is behind us with the June quarter contraction. Nonetheless, our latest projection for FY2020/21 is for real economic activity to contract in the range 10 – 12 per cent, somewhat more than our previous projection of 7 – 10 per cent. **The Bank projects a partial rebound of about 3% growth will commence in FY2021/22, and could possibly be as high as 8 per cent if there is a strong recovery in tourism. However, the Jamaican economy is not expected to return to pre-COVID-19 levels before at least FY2022/23.**

Despite the fallout in economic activity, the financial system has remained resilient throughout the pandemic. O**ur regular assessment of deposit taking institutions' (DTIs) balance sheets indicates that they are more than adequately capitalized and in compliance with prudent liquidity standards.** Loan quality for the system, while naturally showing a small deterioration, remains well below our threshold. Specifically, the ratio of non-performing loans to total loans increased to 2.8 per cent in September 2020 compared with 2.4 per cent in September 2019, well below the benchmark of 10 per cent. At the same time, DTIs' provisioning remains sufficient to withstand credit losses. **We will continue to closely monitor the trends in loan quality given the heightened risks.**

As it relates to our external accounts, notwithstanding the fallout in tourism flows, the Bank expects that the current account deficit of the balance of payments will remain at sustainable levels of 2 – 4 per cent of GDP over the next two years. This is better than previously expected, supported by stronger than expected remittance inflows, a dramatic fall in imports as well as lower levels of private capital outflows. As such, Jamaica's reserves remain healthy, with net international reserves at end-October amounting to approximately US$2.9 billion.

Turning to developments in the foreign exchange market, we have generally observed a continuation of two-way movements in the exchange rate. The exchange rate appreciated for most of September and has depreciated moderately since October. The annual average rate of depreciation at the end of October 2020 was 6.7%, which, although above the average depreciation of 2.6 per cent recorded last year, is arguably moderate under the circumstances.

It would be normal for the exchange rate in a tourism-dependent economy like ours to depreciate more rapidly in a crisis like this but, quite remarkably, supply has virtually kept pace with demand. Between March and October, daily purchases of foreign currency by authorised dealers and cambios from end users averaged US$30.4 million, slightly lower than the average of US$33.4 million recorded last year. Shortfalls in the market have been met by BOJ B-FXITT sales of US$242.3 million since the onset of the crisis in March 2020.

Ladies and gentlemen, let me conclude. The macroeconomic indicators and forecasts that we have presented today reveal that the COVID-19 pandemic continues to have a deep impact on the domestic economy, aggravated by recent weather conditions which will have an adverse effect on our near-term outlook for the economy and temporarily contribute to higher inflation. The Bank will maintain its accommodative posture in an effort to limit the adverse impact of these shocks on the Jamaican economy and to support a sustainable economic recovery. Notwithstanding these circumstances, the capitalization and liquidity levels of the DTI's are satisfying, the current account deficit remains modest and the NIR strong. **The Bank will focus on maintaining inflation within the target range of 4 - 6 per cent and stands ready to deploy additional measures, where appropriate, to ensure the continued smooth flow of liquidity in the financial system.**

Thank you.