20 December 2019

BANK OF JAMAICA HOLDS POLICY RATE

Bank of Jamaica announces its decision to hold the policy interest rate (the rate offered on overnight balances at Bank of Jamaica) unchanged at **0.50 per cent per annum**, effective 23 December 2019.

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 inflation target of 4.0 per cent to 6.0 per cent over the ensuing eight quarters. The inflation target was set by the Government to facilitate a faster pace of economic growth. Bank of Jamaica will therefore continue to closely monitor the impact of the significant monetary loosening undertaken thus far on credit expansion, capital market transactions, overall economic activity and, consequently, the impact on inflation, to determine the appropriate future path for the policy rate.

Inflation

At its assessment in November 2019, Bank of Jamaica's forecast was for inflation to average 4.5 per cent over the next eight quarters.[1] Inflation was projected to accelerate to 4.6 per cent at December 2019 and to 4.7 per cent at March 2020 before decelerating slightly at June 2020. Over the remaining five quarters, inflation was projected to remain within the lower half the 4.0 per cent to 6.0 per target. The forecast was mainly predicated on the impact of exchange rate depreciation, expectations of administered price adjustments, the lagged effect of previous monetary policy accommodation and a slight upward adjustment to crude oil prices.

Annual inflation at November 2019, as reported by the Statistical Institute of Jamaica, was 4.6 per cent, higher than the 4.1 per cent recorded at November 2018.[2] For the month of November, prices rose by1.3 per cent, which was above Bank of Jamaica's forecast of 0.4 per cent.

The main source of the higher-than-expected inflation rate for November was related to agricultural food prices. Vegetable prices rose by 10.6 per cent for the month and approximately 30 per cent for the 12 months to November. In particular, the prices for cabbage, lettuce, carrot, sweet pepper and potato rose significantly in the month, largely due to adverse weather conditions (drought followed by heavy rains) which affected the island between June and October 2019. **Excluding the impact of the increases in agricultural food prices, annual**

[1] Bank of Jamaica's forecast horizon is eight quarters ahead as it covers the period in which changes in the policy rate has its largest impact on inflation.
[2] Underlying or core inflation (which measures price increases without the influence of agricultural food and fuel prices) remained low at 2.8 per cent at November 2019.

inflation would have remained low at around 1.9 per cent. In addition, transport-related prices increased by 0.5 per cent during the month, associated with increases in retail petrol prices as well as seasonally higher airfares.

Bank of Jamaica views the level of November's agricultural food prices as a peak and expects those prices to start falling in December as agricultural production recovers.

Bank of Jamaica's current assessment is that inflation is likely to be higher than previously forecasted over the next two quarters but is expected to track within the target range of 4.0 per cent to 6.0 per cent. This updated inflation outlook stems from the CPI outturn for November 2019 and the near-term prospects for agricultural food prices along with the outlook for higher oil and international grains prices, the latter reflecting the impact of increased optimism about world growth and demand. In addition, for oil, there is the likelihood of a reduction in supplies by some of the main oil producers. Inflation may also be affected by higher than projected growth in credit to the private sector, reflecting a stronger impact of past monetary policy easing.

Other Economic Variables

At its assessment in November 2019, Bank of Jamaica's forecast anticipated that, over the next eight quarters, the Jamaican economy would likely continue to reflect some slack (that is, projected GDP growth being lower than Bank of Jamaica's estimate of potential GDP growth). The risks to this projection for real GDP growth over the next eight quarters are now balanced. The principal risk that could cause real GDP growth to be lower than anticipated stems from lower production in the construction sector as large scale projects are completed. However, higher than previously anticipated growth among Jamaica's main trading partners could support higher domestic real GDP growth. In addition, GDP growth could be higher than anticipated in the context the Bank's accommodative monetary policy over the last eight quarters.

Other macroeconomic indicators continue to be positive. Foreign reserves remain above levels deemed to be adequate, market interest rates remain low, the current account of the balance of payments remains sustainable, labour market conditions are improving and fiscal performance continues to be strong.

The next policy decision announcement date is 19 February 2020.