

30 September 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**.

The decision to hold the policy rate unchanged is based on the Bank's current assessment that monetary conditions are generally appropriate to support the achievement of the inflation target of 4.0 per cent to 6.0 per cent over the ensuing four to eight quarters. Bank of Jamaica will therefore continue to closely monitor the impact of the significant monetary loosening on credit expansion, and consequently, on investment and economic growth. However, should the downside risks to inflation materialise, the Bank stands ready to implement additional measures to meet the inflation target.

Inflation

Annual inflation at August 2019, as reported by the Statistical Institute of Jamaica, was 4.1 per cent, down from 4.3 per cent at July 2019 but higher than the 3.9 per cent recorded at August 2018. The August 2019 outturn is in line with Bank of Jamaica's forecast and represents the fourth month in a row that annual inflation fell within the Bank's target of 4.0 per cent to 6.0 per cent, albeit below the mid-point of 5.0 per cent. Underlying or core inflation, however, remained low at 2.4 per cent.

At its assessment in August 2019, Bank of Jamaica's forecast anticipated that inflation would decelerate to 3.7 per cent at September 2019 before accelerating towards the middle of the target in the December 2019 quarter, given expectations for higher food prices in the context of hot, dry weather conditions. Over the March 2020 to June 2021 quarters, inflation was projected to remain below the mid-point of the Bank's target, mainly reflecting the impact of lower energy prices and low inflation among Jamaica's main trading partners. The Bank's policy action to reduce the policy rate by 25 bps to 0.50 per cent in August 2019 was aimed at mitigating the risk that inflation would fall below the target at various points over the next eight quarters.

Bank of Jamaica's current assessment is that the risks to the August 2019 inflation forecast are skewed upwards. This implies that the inflation forecast is likely to be revised upwards, within the target range. Agricultural prices are likely to be revised upwards over the near-term given recent weather-related shocks. Inflation may also be affected by higher than projected growth in credit to the private sector, reflecting a stronger-than-anticipated impact of past monetary

policy easing. The main risks that could cause inflation to be lower than expected include lower than previously anticipated imported inflation and lower external demand.

Other Economic Variables

At its assessment in August 2019, Bank of Jamaica's forecast anticipated that over the next eight quarters the Jamaican economy is likely to continue to reflect some slack (that is, projected GDP growth being lower than Bank of Jamaica's estimate of potential GDP growth). The imminent temporary closure of the Alpart alumina plant will result in a fall in production in the mining sector and GDP growth over the next eight quarters. Non-mining GDP is however likely to continue to reflect stable growth. Weaker global growth in the context of the intensification of global trade tensions represents a risk that GDP growth in Jamaica will be lower than projected. The main upside risk to GDP growth emanates from the impact of 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 the fiscal performance continues to be strong.

The next policy decision announcement date is 19 November 2019.