BANK OF JAMAICA

Quarterly Monetary Policy Report

Press Conference

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Bank of Jamaica

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Good morning and welcome to the Quarterly Monetary Policy Report press conference.

The Decision

On 16 November 2018, Bank of Jamaica announced its decision to hold the policy interest rate (the rate offered on overnight placements with Bank of Jamaica) **unchanged** at **2.00 per cent**.

This policy decision reflects the Bank's assessment that inflation will rise close to the upper band of the 4.0 per cent to 6.0 per cent target over the three quarters to June 2019 and will trend thereafter to the middle of the target range. We view current monetary conditions as appropriate to support inflation returning to the centre of the target over the medium term. We therefore decided to make no change to the policy rate.

Inflation Performance Relative to Target & Revised Outlook

Inflation is back on target.

At the last quarterly press conference in August, we noted that inflation had fallen below the 4.0 to 6.0 per cent target between March 2018 and August 2018. However, twelve-month inflation at October 2018, as reported by STATIN, was 4.7 per cent, higher than the 2.8 per cent recorded at June 2018. As Bank of Jamaica had reported before, the uptick in inflation since June 2018 largely reflects higher, more normal prices for agricultural food crops and increased electricity costs.

Over the next four quarters, inflation is projected to fall to 4.0 per cent at December 2018, accelerate to about 4.7 per cent at March 2019 and then rise further towards the upper limit of the target by June 2019. Inflation is then projected to fall close to the lower limit of the target in the September and December 2019 quarters and then gradually trend towards 5.0 per cent thereafter. The Bank's forecasts are set out in more detail in the quarterly monetary policy report.

Bank of Jamaica's medium-term forecast, which is for inflation to converge to 5.0 per cent, is predicated on continued improvements in domestic demand as GDP growth strengthens and the labour market improves further. This outlook is supported by an expectation of further strengthening of the US economy and continued monetary accommodation by Bank of Jamaica, while fiscal consolidation is expected to continue to have a restraining effect on domestic demand.

Risks to the Forecast

We have assessed the risks to the inflation forecast to be generally balanced. The main downside risks that would cause inflation to be lower than our baseline forecast include a worsening in domestic demand conditions associated with lower-than-anticipated US GDP growth in the context of escalating trade tensions. Additionally, international commodity prices, in particular crude oil prices, could be lower than expected. On the upside, the current accommodative monetary conditions could spur an even faster rise in domestic demand and therefore higher inflation than the baseline forecast. Bad weather conditions, second-round effects of administered price changes and an increase in inflation expectations are additional upside risks.

Macroeconomic Developments & Outlook

The prospects for the Jamaican economy are positive.

Bank of Jamaica projects continued recovery in economic activity. The expected growth predominantly reflects an improvement in net external demand, buoyed by increased production in mining and quarrying and expansion in construction and tourism-related activities. Consumption spending is estimated to have grown for the current quarter, supported by continued strong expansion in consumer credit. However, the Bank assesses that GDP, while improving, will continue to trend somewhat below potential output.

Unemployment is at a record low and conditions in the labour market remain promising. The unemployment rate declined to 8.4 per cent at July 2018 from 11.3 per cent a year earlier. The fall in the unemployment rate reflected annual growth of 12,800 new jobs and a decline in the size of the labour force. Bank of Jamaica is expecting that there will be further improvements in labour market conditions and employment over the next two years. This could, of course, provide a boost to wages which could lay the basis for higher inflation in the future.

We are also continuing to see an encouraging pick-up in credit extended by deposit-taking institutions to the private sector. In this regard, the Bank's decision to hold the policy rate unchanged at this time should continue to encourage increased economic activity and job creation financed by strong growth in credit to the private sector.

Developments in the Foreign Exchange Market

The exchange rate has continued to exhibit flexible two-way movements.

At the time of our last press conference, the exchange rate was on an upswing and this stirred considerable concern among business people and the wider public. Since then, the exchange rate has appreciated largely due to reduced end-user demand combined with increased supplies from the market. The Bank assesses that the market is more than adequately supplied with US dollars and has recently presented an opportunity for it to buy foreign exchange from the market. Bank of Jamaica therefore announced its intention to buy US$10.0 million on 05 December via multiple-price competitive auction in accordance with the B-FXITT rules. Purchases by the Bank are used to meet the foreign exchange requirements of the government and public sector bodies, such as for debt service, and to build reserves. The Bank also purchases in circumstances where this is necessary in order to maintain orderly conditions in the foreign exchange market.

Conclusion

In conclusion, Jamaica's macroeconomic indicators are positive. Inflation is low and on target and international reserves are at healthy levels. The current account of the balance of payments, while projected to widen, should remain at sustainable levels. Market interest rates are at record lows and fiscal performance is strong. In this favourable economic environment, and while the outlook for inflation remains within the inflation target, Bank of Jamaica is able to maintain an accommodative monetary policy stance in support of expanded output and job creation.

Thank you.