BANK OF JAMAICA

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.

Monetary Policy Decision/Inflation

Jamaica and the world continue to grapple with the challenge of the COVID-19 pandemic, particularly the resurgence of infections, and the attendant implications for economic activity. Against this background, last Tuesday, we announced our decision to hold the policy rate at 0.50 per cent per annum.

The decision to hold the policy rate unchanged is based on our continued assessment that the current monetary policy stance is generally appropriate to support inflation remaining within the Bank's target of 4.0 per cent to 6.0 per cent over the next two years.

The current inflation rate for the 12 months leading up to July 2020, as measured by the Statistical Institute of Jamaica, is 5.7%. This outturn in headline inflation reflects the impact of higher food prices, mainly agricultural commodities.

Price increases that exclude the influence of agricultural food and fuel prices (otherwise known as core or underlying inflation) have been trending upwards in recent months to 4.2 per cent for the year to July 2020 and is consistent with the Bank's accommodative monetary policy stance. Moreover, the outturn for July reflects increased prices for health services, personal care goods and some processed food items, consequent on higher demand for these goods and services.

Looking ahead by quarter, Bank of Jamaica expects that the headline consumer price inflation will trend as follows:

September 2020	**5 - 6%**
December 2020	**4 - 5%**
March 2021	**5 - 6%**

This near-term inflation forecast is largely being influenced by:

1. a deceleration in agriculture and processed food price inflation; and
2. higher imported inflation.

The outlook for higher imported inflation is largely as a result of our projection for higher oil prices, which should contribute to increased domestic energy and transport-related prices. The projection of a slow-down in the pace of increase in food prices is mainly related to an expected normalisation in supply conditions, following the early onset of drought conditions since the start of the year. In addition to these factors, there could be some adjustments in regulated prices, which would affect inflation in the near-term.

Over the next two years, inflation is projected to remain in the 4% to 6% band

Risks to the Forecast

The risks to the inflation forecast over the near term are mainly skewed towards a higher outturn.

A major factor that could cause the inflation rate to be higher than expected is a worsening of the impact of unfavourable weather conditions on agricultural prices. Fuel and energy related costs could also have a stronger than anticipated second round effect on prices of processed foods and consumer durables over the near term. In addition, improvements in domestic demand could influence higher than anticipated prices, particularly for agricultural foods.

The main factors that could cause inflation to be lower than our forecast is that domestic demand and imported inflation could be lower if global growth is weaker, as a result of the prolonged pandemic.

Impact of COVID-19 on the Jamaican Economy

The Bank has updated its view of the impact of the COVID-19 pandemic on the domestic economy. Our current projection is for the contraction in FY2020/21 to be greater than previously anticipated, in the range 7 – 10 per cent. This is above our earlier forecast for a contraction in the range of 4 – 7 per cent.

This worsened outlook is largely associated with the resurgence of the virus in major trading partner countries as well as updated assessments of the impact of the crisis on some sectors of the Jamaican economy. Between June 2020 and March 2021, we expect weaker performances within *Transport*, *Storage & Communication*, *Electricity & Water, Construction* and *Hotels & Restaurants*. The revised outlook for *Transport* primarily relates to lower than anticipated demand for public transportation, given lockdown measures and work-from-home arrangements. For *Electricity & Water*, the revision is associated with a reduction in demand arising from the general decline in business activity, while the decline in *Hotel & Restaurants* is consistent with a more pessimistic outlook for US GDP growth.

The Bank is expecting that partial economic recovery will commence in FY2021/22, with GDP growth anticipated in the range of 3.0 – 6.0 per cent. Notwithstanding the expectations for growth, the Jamaican economy is not expected to return to pre-COVID-19 levels before FY2022/23.

The economic impact of COVID-19 has also adversely affected loan demand, more so consumer and personal lending than credit to businesses. Growth in business loans remained relatively strong at 16.9 per cent at June 2020, slightly below the growth rate of 18.2 per cent recorded in February 2020, but for personal loans we observed a more significant drop-off in growth to 10.7 per cent at June 2020 from 15.3 per cent at February 2020. This buoyancy in growth in business lending has been largely driven by increased demand for working capital as well as loans that had already been in the pipeline. Meanwhile, the decline in personal loans has arisen because the incomes of households have been hit by the downturn in economic activity. As expected, there has been a slight worsening of non-performing loans since the onset of the pandemic. **However, the financial system remains well capitalised, with adequate liquidity to facilitate the continued smooth running of the sector.**

Developments in the Foreign Exchange Market

There has been much public concern about the movement of the exchange rate, particularly since 12 August 2020 when it crossed a psychological threshold of J$150.00 = US$1.00. The public's concern and anxiety are understandable.

The reason for the weaker Jamaica dollar, ladies and gentlemen, is the significant reduction in the availability of US dollar inflows into the system, due mainly to the sudden stop in tourist arrivals since the onset of COVID-19 in Jamaica at end-March 2020 and the slow recovery in the sector since the reopening of our borders in mid-June 2020. We note that remittance inflows have been particularly strong, growing by approximately 42% in June and has supported liquidity in the market. However, there was a pick-up in FX demand in August when compared to the previous month, which led to the adjustment in the exchange rate.

Bank of Jamaica sold US$30 million to the market on 18 August so as to ensure continued orderly adjustments in the exchange rate. We also offered a US dollar indexed bond to investors seeking a hedge against future exchange rate movements. This comes on the heels of several prior initiatives to provide extra liquidity to the foreign exchange market since March of this year, including B-FXITT flash sales, direct sales to players in the energy sector, extending an FX Swap arrangement, providing a US dollar repurchase facility and reducing the foreign currency cash reserves. **These measures have already provided in excess of US$700 million in foreign currency liquidity support to the market.**

Apart from supplying extra liquidity in times of crisis, as we have done, BOJ intervenes ONLY IF we see or expect disorderly movements in the exchange rate that could threaten the inflation target.

Bank of Jamaica continues to monitor developments in the FX market and we will work closely with authorised dealers and cambios to ensure the smooth and orderly functioning of the market. If necessary BOJ will act, using both monetary policy and foreign exchange operations, to ensure that movements in the exchange rate do not affect our inflation target. **Let me emphasize, with gross reserves of US$3.7B, Jamaica is in a stronger position than in previous crises. These reserves, if judiciously managed, will be adequate to see us through this temporary crisis.**

Concluding Statements

Ladies and gentlemen, the prospects for the Jamaican economy continue to be characterised by heightened uncertainty associated with the COVID-19 pandemic. **As the number of reported cases rise both here and abroad, sustainable economic recovery could be delayed, awaiting recovery of the critical tourism sector.**

In light of these circumstances, Bank of Jamaica has maintained its accommodative monetary policy stance aimed at encouraging and supporting a speedy economic recovery once this crisis has passed. We will remain focussed on ensuring that inflation remains low, stable and predictable within the target range of 4.0 per cent to 6.0 per cent while standing ready to deploy additional measures, as needed, to ensure the continued smooth flow of liquidity to all participants in the financial system.

Thank you.