



Quarterly Monetary Policy Report
Press Conference

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Governor

Bank of Jamaica
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Ladies and gentlemen,

Good morning and welcome to Bank of Jamaica's quarterly monetary policy press conference and the presentation of the Quarterly Monetary Policy Report (QMPR) for the September 2019 quarter.

Monetary Policy Decision

On Tuesday, we announced the decision to maintain the policy rate, which is the rate offered on overnight placements with Bank of Jamaica, at 0.50 per cent per annum. This decision was effective yesterday, 20 November 2019.

Bank of Jamaica's decision to hold the policy rate unchanged is based on our continued assessment that monetary conditions are generally appropriate to support the achievement of the Bank's inflation target of 4.0 per cent to 6.0 per cent over the next eight quarters. As you are aware, the Bank's inflation target was set by the Government to facilitate a faster pace of economic growth while at the same time supporting the country's ongoing debt reduction strategy.

Since June 2017, the Bank has reduced the policy rate from 3.50 per cent per annum to the current level of 0.50 per cent per annum. We have seen that the deposit-taking institutions, that is, commercial banks, merchant banks and building societies (or DTI's for short) - have also reduced their lending rates on local currency loans. As a result, we continue to observe buoyant growth in loans provided by DTIs.

Specifically, credit extended by DTIs to businesses and households grew by 15.5 per cent between September 2018 and September 2019 broadly consistent with growth observed since the start of the year. In addition to loans from DTIs, firms have been obtaining financing from the issue of corporate bonds and equity.

Inflation Outlook

I will now provide more details on the assessment of inflation that informed Bank of Jamaica's decision that was announced on Tuesday.

In STATIN's latest release, the prices faced by consumers in Jamaica rose by 3.3 per cent for the year leading up to October 2019 versus 4.7 per cent for the same period last year. The largest contributor to the inflation rate was **Food and Non-Alcoholic Beverages** (a category within the CPI), which rose by 5.9 per cent over the year. This was driven by an increase of close to 17.0 per cent in vegetable prices. **Education** also increased by 6.4 per cent, which reflected increases in school fees. **However**, the category **Housing, Water, Electricity and Gas**, fell by 1.0 per cent over the year. This was driven by a decline in electricity rates due to a fall in the cost of the fuel used in electricity generation. Also, **Transport**-related expenses fell by 1.9 per cent, also related to lower oil prices as prices.

In addition, price increases that exclude the influence of agricultural food and fuel prices (otherwise known as core or underlying inflation) remain low, below 3.0 per cent. As we have been indicating to you in our previous press briefings, this low underlying inflation rate indicates that domestic demand conditions are running below the economy's capacity. Lower oil prices also indirectly contributed to keeping underlying inflation at this low level.

Looking ahead, Bank of Jamaica expects that consumer prices will rise at an average 12-month rate of about 4.5 per cent over the next eight quarters. This outlook for inflation is based on the Bank's expectations for the pass-through of Bank of Jamaica's past monetary accommodation to prices. The impact of this is expected to be partially offset by low global growth and inflation among Jamaica's main trading partners, declines in international commodity prices as well as continued tight fiscal policy. I invite you to read the QMPR for more details about the inflation forecast.

Risks to the Forecast

The chance that inflation over the next two years will be significantly higher or lower than the forecast that I have just outlined is not strong.

One of the factors that could cause inflation to be higher than projected is a depreciation in the exchange rate. We note however that the impact of the exchange rate on inflation is lower than in the past. Higher inflation could also arise from stronger than anticipated domestic demand, driven by the improved credit conditions in the economy.

The main factor that could cause inflation to be lower than our forecast is higher than anticipated production in the agriculture sector, leading to lower rates of increases in food prices.

Recent Developments in the Foreign Exchange Market

Ladies and gentlemen, permit me a few minutes to discuss the causes of the recent movements in the foreign exchange market. This has stimulated much public discussion and highlights the importance of the exchange rate to the average Jamaican. Between 01 October 2019 and 12 November 2019, despite normal daily inflows, the exchange rate depreciated by 5.2 per cent or J\$7.07. This movement entirely reversed the appreciation of 1.8 per cent that occurred in September 2019 and erased the sense of normal two-way movement in the exchange rate that had been evident for an extended period prior to October 2019. This perception was amplified by the weighted average selling exchange rate breaching the psychological threshold of J\$140.00 at the end of October 2019.

One of the factors influencing the spike in demand for foreign currency was the heightened demand relating to portfolio transactions, combined with seasonal re-stocking by retailers ahead of the Christmas period. In response to this unusual heightened demand, Bank of Jamaica acted to enhance US dollar supply by selling a total of US\$140.0 million between 18 October 2019 and 14 November 2019 via five B-FXITT flash sale operations. In our latest intervention on 14 November, the Bank amended its rules to require that all the funds sold by the Bank to Authorised dealers and large cambios be re-sold to end-users, (that is, non-financial commercial entities that are funding obligations for goods and services acquired). The Bank felt that this requirement was necessary as the larger part of previous interventions funds had not reached end-users. The Bank is of the view that most of this extraordinary demand for foreign currency has been satisfied. As such, we have observed that the exchange rate has adopted an

appreciating trend since 13 November 2019.

I wish to emphasize that the Jamaican Government remains committed to maintaining a flexible exchange rate system. Bank of Jamaica will therefore continue to ensure orderly conditions in the foreign exchange market and will intervene if there is excessive volatility or the emergence of temporary gaps in supply. It is also important that authorized dealers and cambios work together to facilitate a transparent and smooth-functioning foreign exchange market.

Ladies and gentlemen, in closing, Bank of Jamaica's view is that the prospects for the Jamaican economy continue to be positive. Foreign reserves are at adequate levels and we have a sustainable position in the current account of the balance of payments. Fiscal performance is strong and public sector debt continues to decline at a steady pace. Jamaica's labour market continues to improve and market interest rates remain generally low.

Bank of Jamaica continues to hold the view that the economy could grow at a faster pace without it resulting in inflation increasing above the Bank's target. In this context, Bank of Jamaica will continue to closely monitor the impact of monetary policy actions 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.

Thank you.