

## **Richard Byles: Jamaica's recent inflation performance and outlook**

Statement by Mr Richard Byles, Governor of the Bank of Jamaica, to the Standing Finance Committee of Parliament, Kingston, 23 July 2024.

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Good afternoon:

Bank of Jamaica welcomes this opportunity to once again appear at the Standing Finance Committee to discuss our conduct of monetary policy. The monetary policy report for the six-month period ending March 2024 was tabled in accordance with the Bank of Jamaica Act. My remarks will largely be focussed on our recent policy decisions, which are aimed at fulfilling our primary mandate of price stability, as well as to update the Committee on other relevant developments.

### **Recent Monetary Policy Developments**

Over the past three years, Bank of Jamaica (BOJ) has tightened monetary policy by utilising a three-pronged approach. Specifically, the Bank has: (i) increased the policy rate by 650 basis points to 7.0 per cent, which resulted in small increases in DTIs' loan rates and moderate increases in their deposit rates; (ii) tightened Jamaica dollar liquidity in the money market using our open market operations, which led to increases in private money market interest rates; and (iii) utilised our foreign reserves to maintain relative stability in the foreign exchange market.

This tight monetary policy stance was appropriate given that inflation had significantly increased from a low of 3.8 per cent at April 2021 to a high of 11.8 per cent at April 2022 and, thereafter, remained outside the target range of 4.0 to 6.0 per cent for several months. The Bank's policy actions were designed to reduce inflation by constraining domestic aggregate demand and minimising the impact of imported inflation by inducing more stability in the foreign exchange market.

The incoming data for inflation, inflation expectations, wage increases and the balance of payments suggest that there has been significant success in the fight against high inflation in Jamaica. In this context, on 28 June 2024, Bank of Jamaica (BOJ) announced the Monetary Policy Committee's (MPC's) decision to start a gradual easing of its monetary policy stance. The first step involves gradually reducing BOJ's absorption of liquidity from DTIs through open market operations, thereby facilitating: (a) the channelling of additional credit to the productive sector; and (b) gradual reductions in money market interest rates. However, the MPC decided to maintain the policy rate at 7.0% at this time and to continue its proactive stance of preserving relative stability in the foreign exchange market.

The MPC noted that future monetary policy decisions will continue to depend on incoming data, which, if they indicate a sustained anchoring of inflation within the target range, could lead to further easing of monetary policy.

I will now review some of these developments and the near-term outlook in more detail.

## **Jamaica's Recent Macroeconomic Performance**

The 12-month point-to-point inflation rate at June 2024 was 5.4%, slightly above the outturn for May 2024 but remained within Bank of Jamaica's inflation target of 4.0 to 6.0% for the fourth consecutive month.

Core inflation has, however, trended downward. The measure of core inflation that excludes the prices of all food types, as well as fuel prices (including transport prices) from the annual change in the CPI, was 4.9% at June 2024. This was below recent outturns. Another measure of core inflation that excludes just the prices of agricultural food items and fuel prices was 4.6% at June 2024, also below the outturn at May 2024 and that for June 2023.

The Jamaican economy continued to grow over the first half of 2024, although moderating. Real GDP as reported by STATIN grew by 1.4 per cent for the March 2024 quarter and is estimated by the PIOJ to have continued to grow for the June 2024 quarter.

For the December 2023 quarter, the balance of payments recorded a current account surplus of US\$256.4 million (or 1.3% of GDP), which was an increase relative to the surplus recorded for the December 2022 quarter. This increase in the surplus, which was primarily associated with growth in tourism-related earnings, along with a positive outlook for the balance of payments over the next year, underpins the relatively strong flows in the foreign exchange market.

Along with the actions taken by the Bank, the strong flows into the economy has caused the foreign exchange market to remain relatively stable. Between September 2021 and July 2024, the average annual depreciation of the Jamaican Dollar has been 1.8%.

The financial system remained stable over the review period. Ladies and gentlemen, we are pleased to note that, having addressed the remaining vulnerabilities in our AML/CFT framework, Jamaica was removed from the enhanced monitoring list of the FATF during the June 2024 Plenary. The programme of work that led to this decision was carried out by a number of state agencies, coordinated by our Prime contact who is based at Bank of Jamaica. Jamaica aims to continue improving our AML/CFT regime, as we prepare for our 5th round mutual evaluation, scheduled for June 2026.

## **Near-Term Outlook**

### **Inflation**

The declining trend in inflation that we have recently experienced is expected to be interrupted temporarily by the passage of Hurricane Beryl. As we know, the system affected a significant proportion of Jamaica's agricultural infrastructure and supply, which will drive pricing decisions for selected starchy foods and vegetables over the next 2 – 3 months. The Bank is still actively assessing this and other influences on the outlook for the CPI but, in the context of expected higher agricultural food prices, inflation may temporarily track above the Bank's target range of 4 – 6 per cent for 2 – 3

months, starting in August 2024. Inflation is however expected to return to the target range towards the end of the year as the agriculture sector rebounds, and inflation will generally remain in that corridor.

### **Gross Domestic Product (GDP)**

Economic growth for FY2024/25 is also likely to be impaired by the impact of the storm on the agricultural sector and related sectors.

### **International Reserves**

Jamaica's gross international reserves at end-June 2024 amounted to US\$5.2 billion and, notwithstanding the passage of Hurricane Beryl, are projected to remain adequate over the medium term.

### **Conclusion**

Ladies and gentlemen, in April 2024, Bank of Jamaica received written confirmation from the Minister of Finance and the Public Service that the inflation target for Jamaica will be maintained at 4.0 to 6.0 per cent for the next three years. The Bank remains resolute in its commitment to seeing inflation firmly anchored in this target range. The MPC's decisions on policy rate adjustments and other monetary policy actions in the near term will continue to be data dependent. In the meantime, the Bank will maintain heightened surveillance of the risks to inflation.

Thank you.