

Richard Byles: Update and outlook for the Jamaican economy

Monetary Policy Press Statement by Mr Richard Byles, Governor of the Bank of Jamaica, at the Quarterly Monetary Policy Report press conference, Kingston, 25 November 2024.

* * *

Introduction

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

Monetary Policy Decision

The Bank's Monetary Policy Committee met on the 19th and the 20th of November and decided to continue the gradual easing of its monetary policy stance. Effective Friday, the 22nd of November 2024, the Bank's policy rate has been lowered by 25 basis points to 6.25 per cent. The MPC also reaffirmed its commitment to ensuring continued stability in the foreign exchange market.

The decision to further ease monetary policy reflects the Committee's view that:

- (a) Following the temporary impact of Hurricane Beryl on prices, inflation is becoming more anchored in the Bank's target range of 4.0 to 6.0 per cent and;
- (b) the inflation outlook has improved.

However, in the context of some emerging uncertainties, the MPC also noted that future interest rate adjustments will, of necessity, be gradual and will continue to depend on the incoming data.

I will now briefly discuss the factors underpinning the MPC's monetary policy decision, starting with the most recent inflation data.

Economic Conditions Underpinning Inflation

Following the temporary impact of Hurricane Beryl on prices, inflation is becoming more anchored in the Bank's target range. On the 15th of November, The Statistical Institute of Jamaica (STATIN) reported that headline inflation at October 2024 was 4.9 per cent, which was lower than the 5.7 per cent at September 2024. This outturn was also lower than the Bank's most recent forecast and was within the Bank's target range. Core inflation (which excludes the prices of agricultural food products and fuel from the Consumer Price Index) was 4.5 per cent at October 2024, representing the sixteenth consecutive month that core inflation has been below 6.0 per cent.

The sources of inflation in the economy have been moderating and inflation is projected to remain broadly within the Bank's target range over the next two years.

First, inflation expectations in Jamaica remain on a consistent downward path. In Bank of Jamaica's September 2024 survey of businesses' inflation expectations, which was conducted over the period 19 August to 13 September 2024, respondents lowered their expectations for inflation 12 months ahead to 7.6 per cent from 8.2 per cent, a continuation of the declining trend since the middle of 2022.

Second, both the change in the exchange rate and businesses' expectations about the pace of depreciation in the future have remained fairly stable. The exchange rate has depreciated by 2.1 per cent on a year-over-year basis at 19 November 2024, which is a mild uptick when compared to the 1.1 per cent depreciation for the same period a year earlier. The foreign exchange market has been adequately supported by the Bank's use of its foreign reserves to augment flows in the market. BOJ sold over US\$1.0 billion via its B-FXITT facility over the 12 months to end-October 2024, compared to US\$947 million sold over the similar 12 months to end October 2023. However, it is important to note that the Bank net purchased approximately US\$1.2 billion over the 12 months period to October 2024, which in part, resulted in the gross reserves increasing to US\$5.7 billion at end-October 2024. The Bank is committed to ensuring that the foreign exchange market remains stable.

The third source of inflation that has moderated is international commodity prices. The international prices of grains (particularly wheat, corn and soybeans) for the September 2024 quarter were lower, on average, by approximately 25.3 per cent, compared to the September 2023 quarter. Energy and shipping prices also declined in the September 2024 quarter. Importantly too, inflation in the US fell to 2.6 per cent at October 2024 from 3.2 per cent a year earlier. Lower grains price inflation and lower US CPI inflation have reduced the pace of increase in Jamaica's import costs. The continued existence of these factors increase the likelihood of a further reduction in interest rates in the US, all of which benefit our economy.

Finally, demand in the economy continues to moderate. Some of this is the result of the Bank's past monetary policy decisions to reduce inflation. However, the shock to the Jamaican economy from Hurricane Beryl has also significantly slowed growth.

The economy is estimated by the PIOJ to have contracted by 2.8 per cent for the September 2024 quarter, in contrast to the growth of 0.2 per cent recorded for the June 2024 quarter. The decline mainly reflected contractions in domestic crop production and in the mining sector, due to the hurricane. For the December quarter, the economy is estimated to contract within the range of -1.0 to 0.0 per cent.

Outlook for the Jamaican Economy

I will now briefly discuss the forecast. Inflation is projected to broadly remain within the Bank's target range over the next two years. The current outlook for inflation is lower than the previous forecast that was shared with you in August 2024. This downward revision mainly reflects lower transport-related and processed food price inflation.

However, the balance of risks to the inflation forecast are skewed to the upside (which means that inflation is likely to be above forecast). There is increased uncertainty related to potential economic policy changes among Jamaica's main trading partners,

which could have adverse implications for investment and remittance inflows as well as inflation expectations. Higher inflation could also result from further escalation in geopolitical tensions, which could adversely impact international supply chains. Worse-than-anticipated weather conditions in Jamaica could also influence higher inflation. While information suggests that private sector wage increases have stabilised at their pre-COVID rate, there have been emerging reports of labour market pressures in particular sectors. On the downside, lower-than-projected domestic demand could influence lower inflation.

In relation to demand conditions, for FY2024/25, the Bank projects that the change in real economic activity will fall in the range of -1.0 to 0.5 per cent, while real GDP for FY2025/26 is projected to grow by between 1.0 and 3.0 per cent. The projection for FY2024/25 largely reflects the anticipated adverse impact of Hurricane Beryl on the economy and is underpinned by contractions for Agriculture, Forestry & Fishing and Construction. The outlook for FY2025/26 reflects the view that there will be a fairly rapid rebound in economic activity following the declines in FY2024/25.

Concluding Statement

Ladies and gentlemen, I wish to conclude by:

- (1) Highlighting the positive development of inflation being lowered firmly within the target range of 4.0 to 6.0 per cent with the expectation that Jamaicans will benefit from a stable and predictable rate of price increases over the next two years.
- (2) I also want to reaffirm Bank of Jamaica's commitment to continuing to achieve its primary mandate of price stability by maintaining inflation at between 4.0 and 6.0 per cent.
- (3) Foreign exchange market stability is a significant contributor to price stability, and the Bank is equally committed to maintaining stability in the foreign exchange market.

Thank you. I will now take questions.