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, 24 February 2025.

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Introduction

Good morning and welcome to our first Quarterly Monetary Policy Report press conference for 2025.

Monetary Policy Decision

Last Thursday, the Bank's Monetary Policy Committee (MPC) deliberated on its policy stance in the context of a set of favourable macroeconomic data and forecast for Jamaica, albeit coloured by uncertainties relating to the economic policies of Jamaica's main trading partners and their potential impact on Jamaica and the rest of the World.

From those deliberations, the MPC determined that the current level of the policy rate continues to be appropriate to support inflation remaining within the Bank's target range of 4.0 to 6.0 per cent.

As such, the Committee unanimously agreed to:

(i) maintain the policy rate at 6.0 per cent per annum; and
(ii) preserve relative stability in the foreign exchange market.

I will now briefly highlight the factors which underpinned the MPC's decision, starting with the most recent and positive inflation data.

Economic Conditions Underpinning Inflation

On the 17 th of February, the Statistical Institute of Jamaica (STATIN) reported that headline inflation at January 2025 was 4.7 per cent, representing a general declining trend from the 7.4 per cent at January 2024. Core inflation (which excludes the prices of agricultural food products and fuel from the CPI) was 4.0 per cent at January 2025, remaining consistently below 6.0 per cent since July 2023.

This outturn reflects the fact that the sources of inflation have been moderating.

First, the private sector's expectations of future inflation, a key driver of headline inflation, continues to fall. In the Bank's December 2024 survey of businesses' inflation expectations, which was conducted over the period 25 November to 21 December 2024, respondents lowered their expectations for inflation 12-months ahead by more than one percentage point. This represented a continuation of a downward trend observed since the middle of 2022.

The second factor supporting lower inflation is the recent positive developments in the prices of imported intermediate and final goods. Let me explain. The average price of grains (including wheat, corn and soybeans) for the December 2024 quarter was lower by approximately 15.1 per cent, when compared to the December 2023 quarter. In addition, average oil prices for the December 2024 quarter was lower relative to the previous year and are projected to increase only marginally over the next two years. Inflation in the United States (US), which directly affects the prices of consumer items imported by Jamaicans, decelerated to 2.9 per cent at December 2024 from 3.4 per cent a year earlier. On the other hand, shipping prices increased for the review quarter relative to the corresponding quarter of the previous year.

Thirdly, both the change in the exchange rate, and businesses' expectations about its pace of depreciation in the future, have remained relatively stable. At the 19th of February 2025, the exchange rate, notwithstanding some two-way movement, had depreciated by just 0.3 per cent when compared with the rate on the 19th of February 2024. This is a slower pace when compared to the 1.9 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 healthy reserves to augment flows in the market. BOJ sold US$1.1 billion via its B-FXITT facility over the 12 months to end-January 2025, compared to the sale of US$897 million over the 12 months to end-January 2024. However, it is important to note that the Bank net purchased approximately US$1.1 billion over the 12 months period to January 2025.

Fourthly, the deceleration in headline inflation reflected the impact of no upward adjustments in regulated prices (such as transportation fares).

Finally, while employment levels remain high, anecdotal data suggest that wage pressures are moderating.

Other Considerations

The MPC is also mindful of the trends in interest rates abroad as they, being a potential stimulant of foreign exchange demand, have been somewhat sticky in their downward movement. As expected, the US Federal Reserve (Fed) maintained its policy rate in January 2025 at the range of 4.25 per cent to 4.50 per cent. Further, average yields on longer-term Treasury Bills in the secondary market in the US rose from 3.7 per cent to 4.4 per cent between September and December 2024.

Outlook for the Jamaican Economy

I will now briefly discuss the forecast.

Over the next two years, inflation is projected to remain well anchored within the Bank's target range of between 4.0 and 6.0 per cent. This inflation outlook is largely consistent with the previous forecast that was shared with you in November 2024.

However, the balance of risks to the inflation forecast now appear skewed to the upside (which means that inflation could rise above the forecast). The uncertainty that I mentioned earlier related to potential economic policy changes among Jamaica's main trading partners, which could have adverse implications for remittance and tourism inflows into the economy, as well as repercussions for inflation expectations. Worse-than-anticipated weather conditions in Jamaica could also continue to put upward pressure on inflation. On the downside, lower inflation could result from weaker-than-projected demand.

In relation to demand conditions, the economy is estimated by the Planning Institute of Jamaica to have contracted by 1.8 per cent for the December 2024 quarter, following the decline recorded for the previous quarter. This contraction was predominantly reflected in Agriculture, Forestry & Fishing, Hotels & Restaurants and related services, Construction, and Mining and Quarrying. The decline was principally due to the effects of bad weather and so masks the underlying normal level of the economy.

In this context, the PIOJ projects that the economy for the March 2025 quarter will grow in the range of zero to 1 per cent and BOJ projects that it will recover fully from the effects of the weather-related events over ensuing quarters. Real GDP for FY2025/26 is therefore projected to grow by between 1.0 and 3.0 per cent. Growth will be underpinned by expansions for Agriculture, Forestry & Fishing, Electricity & Water Supply and Hotels & Restaurants.

Concluding Statement

Ladies and gentlemen, Bank of Jamaica remains resolute in its commitment to continue achieving its primary mandate of price stability by maintaining inflation at 4.0 to 6.0 per cent.

In this context, the Bank remains committed to ensuring that the foreign exchange market remains stable. The gross international reserves of the Bank are healthy and are projected to improve even further over the next two years. This is in a context where the current account of the balance of payments has been in surplus for some time and is projected to remain so over the near-term. The gross reserves at end January 2025 amounted to US$5.6 billion, rising from US4.8 billion a year earlier. This level of reserves is more than adequate when compared to international benchmarks for adequacy.

Looking ahead, the Bank is prepared to adjust the stance of monetary policy if the risks highlighted materialise and impede our ability to attain the inflation target.

Thank you. I will now take questions.