

20 February 2019

BANK OF JAMAICA LOWERS POLICY RATE

Bank of Jamaica announces its decision to lower the policy interest rate (the rate offered on overnight placements with Bank of Jamaica) by **25 basis points to 1.50 per cent**.

This decision reflects Bank of Jamaica's forecast that inflation, which is currently below the target of 4.0 per cent to 6.0 per cent, will fall below the target at various points over the next eight quarters in the context of low core inflation and large seasonal increases and reductions in agricultural prices. In the forecast, inflation will then slowly approach the midpoint of the target over the medium term.

For inflation to return to the target sooner, an increase in the rate of expansion in private sector credit is required. This would stimulate increased economic activity by businesses and households, which would support inflation returning to the centre of the target more quickly.

Bank of Jamaica's decision to lower the policy rate is aimed at increasing the rate of expansion in private sector credit and is not aimed at influencing the exchange rate.

The reduction in the policy interest rate will be complemented by a reduction in the cash reserve requirement for deposit-taking institutions ("DTIs") by three percentage points to nine per cent, effective 01 March 2019. This reduction is expected to release \$16.8 billion to DTIs which will improve their ability to provide more credit to households and businesses at lower rates and on better terms. Further reductions will be made over the course of the year.

Inflation

Annual inflation at January 2019 reported by STATIN was 2.3 per cent, down from 2.4 per cent at December 2018 and 4.8 per cent at January 2018. This is the second month in a row that the inflation rate fell below the target.

In the short term, Bank of Jamaica expects domestic agriculture prices to increase from the low levels to which they had subsided in January 2019 to more normal levels. It also expects that there will be some imported inflation caused by a moderate increase in crude oil prices in 2019. Furthermore, Bank of Jamaica expects that there will be some additional inflation from the improvement in domestic demand conditions resulting from its decisions to lower the policy rate during the past year.

In the medium term, the Bank's inflation outlook reflects expectations for continued expansion in domestic demand, albeit moderate, and relative stability in crude oil prices.

The outlook for a moderate expansion in domestic demand is due to a lower projected growth rate in the global economy.

The risks to the inflation forecast are balanced. Inflation could be higher than forecasted because of higher-than-anticipated international commodity prices, particularly for crude oil, and production disruptions in the agriculture sector because of adverse weather conditions. Inflation could be lower than forecasted if domestic demand does not strengthen, thereby tempering the rate of increase in prices.

Other Economic Variables

Macroeconomic indicators continue to be positive. Foreign reserves are above the level deemed to be adequate, the current account deficit of the balance of payments remains low and sustainable, market interest rates are low, labour market conditions continue to improve and fiscal performance continues to be strong.

The next policy decision announcement date is 27 March 2019.