

27 June 2019

BANK OF JAMAICA HOLDS POLICY RATE UNCHANGED

Bank of Jamaica announces its decision to hold the policy interest rate (the rate offered on overnight balances with Bank of Jamaica) unchanged at **0.75 per cent** per annum, effective 28 June 2019.

The decision to hold the policy rate unchanged is based on the Bank's current assessment that monetary conditions are appropriate to support the achievement of the inflation target of 4.0 per cent to 6.0 per cent over the medium term.

Inflation

Annual inflation at May 2019 reported by the Statistical Institute of Jamaica was 4.8 per cent, up from 3.9 per cent at April 2019 and 3.1 per cent at May 2018. The May 2019 outturn is in line with Bank of Jamaica's previous assessment and represents a return to the centre of the target following five consecutive months of annual inflation being below the target. While annual inflation has been rising, underlying inflation remains low.

At its assessment in May 2019, Bank of Jamaica's forecast anticipated that, after falling towards the bottom of the target by the September 2019 quarter, inflation would rise towards the mid-point of the target by the March 2020 quarter as (i) domestic agriculture prices increase and (ii) domestic economic activity increases in response to the lowering of the policy rate over the last eight quarters. Inflation would then decline towards the bottom of the target in the period after the March 2020 quarter and only return to the mid-point slowly over the ensuing three years. The Bank's policy action in May 2019 was aimed at mitigating the material risk that inflation would fall below the target during 2020.

The Bank's current assessment is that the risks to the May 2019 inflation forecast remain balanced. At 17.9 per cent, credit from banks, merchant banks and building societies to the private sector grew faster than projected in the 12 months to May 2019 and is likely to continue to grow faster than was previously expected, driven by past monetary accommodation. This represents an upside risk to economic activity and inflation (ie, higher GDP growth and higher inflation) in the future. On the downside, an intensification of tensions in global trading arrangements points to a slowdown in world growth, which could result in lower oil prices and weaker domestic demand over the next eight quarters.

Other Economic Variables

At its assessment in May 2019, Bank of Jamaica's forecast anticipated that over the next eight quarters the economy is likely to continue to reflect some slack (that is, projected GDP growth being lower than Bank of Jamaica's estimate of potential GDP growth). However, the risks to projected GDP growth are now assessed to be balanced compared to being skewed to the downside

at the May 2019 assessment. Weaker global growth, given the intensification of global trade tensions, represents a downside risk. The main upside risk to GDP growth emanates from the lagged impact of the Bank's accommodative monetary policy over the last eight quarters.

Other macroeconomic indicators continue to be positive. Foreign reserves remain above the level deemed to be adequate, market interest rates are low, the external accounts remain sustainable, labour market conditions are improving and the fiscal performance continues to be strong.

The next policy decision announcement date is 27 August 2019.