

27 August 2019

BANK OF JAMAICA LOWERS POLICY RATE

Bank of Jamaica (BOJ) announces its decision to lower the policy interest rate (the rate offered on overnight placements with BOJ) **by 25 basis points to 0.50 per cent**, effective Wednesday, 28 August 2019.

This decision reflects Bank of Jamaica's assessment that inflation is projected to average 4.3 per cent over the next eight quarters within the inflation target of 4.0 per cent to 6.0 per cent. However, in the absence of a policy response, inflation is likely to fall below the lower limit of the target at various points over this period. Over the medium term, the forecast is for inflation to gradually approach the midpoint of the Bank's target, albeit at a slower pace than previously expected. The inflation forecast is mainly predicated on the continued impact of low domestic demand conditions relative to the economy's capacity, slower growth among Jamaica's main trading partners and declines in international commodity prices. It also accounts for the impact of imminent changes in the fuel mix in the domestic energy sector on electricity rates.

As with previous decisions to reduce interest rates, Bank of Jamaica's decision today to lower the policy rate is intended to stimulate a faster expansion in private sector credit, which should lead to higher economic activity, consistent with the inflation target. This action will support inflation returning more quickly to the centre of the target.

Inflation

Annual inflation at July 2019 reported by the Statistical Institute of Jamaica (STATIN) was 4.3 per cent, up from 4.2 per cent at June 2019 and 3.2 per cent at July 2018. The marginal uptick in inflation mainly reflected the impact of increases in the prices of food items as well as an increase in electricity rates. With this outturn, inflation remained within BOJ's target of 4.0 per cent to 6.0 per cent for the third month in a row.

Bank of Jamaica anticipates that inflation will decelerate to 3.7 per cent at September 2019, as energy-related prices, fall before accelerating to 4.7 per cent at December 2019 as food price inflation accelerates in the context of hot, dry weather conditions. Inflation is expected to be supported by continued growth in domestic economic activity, partly in response to the lowering of the policy rate over the last eight quarters. Over the March 2020 to June 2021 quarters, inflation is projected to remain low, in the range of 3.0 to 5.0 per cent, mainly reflecting the impact of lower oil prices, more efficient domestic energy generation and low inflation among Jamaica's main trading partners. The influence of these factors will however be offset by the impact of Bank of Jamaica's past monetary accommodation.

Inflation is projected to return to the midpoint of the target slowly over the ensuing three years. This outlook carries a material risk that inflation will fall below the target again during that period in the absence of a policy response.

Of note, the projected trajectory of inflation is lower than previously forecasted. This reflects the Bank's view that inflation expectations are lower than previously assessed and that the projected pace of expansion in domestic demand in the period will be slower due to headwinds from the global economy.

The risks to the short-term inflation forecast are assessed to be balanced. The main upside risk, which could cause inflation to be higher than forecasted, is the possibility that the impact of the planned diversification of Jamaica's fuel mix on electricity cost may not be as significant as projected. The main downside risks, which could cause inflation to be lower than forecasted, include better than anticipated production in the agriculture sector which could lead to lower rates of increases in food prices. In addition, domestic demand could be lower than projected, particularly in the context of an escalation in global trade tensions.

Other Economic Variables

Other macroeconomic indicators continue to be positive. Foreign reserves are adequate, the current account of the balance of payments remains sustainable, market interest rates are low, labour market conditions continue to improve and the fiscal performance is strong.

The next policy decision announcement date is 30 September 2019.