Quarterly Press Briefing

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Governor

Bank of Jamaica

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Good morning, ladies and gentlemen.

Today the Bank releases the Quarterly Monetary Policy Report for the January to March 2016 quarter.

Inflation at March 2016 has fallen to a historic low of 3.0 per cent. This is lower than the 3.7 per cent recorded at December 2015 and the 4.0 per cent at March 2015. It was also well below the Bank's target range of 5.5 per cent to 7.5 per cent for FY2015/16 and represents the lowest fiscal year outturn since FY1966/67.

Contributing to the inflation outturn for the fiscal year was a fall of 1.3 per cent in consumer prices in the March quarter. This fall in prices was mainly influenced by declines in energy and transport-related costs and domestic agricultural food prices. The fall occurred despite exchange rate depreciation of 1.4 per cent for the quarter. Inflation continued to decline in April with STATIN reporting that it was minus 0.4 per cent, pushing annual inflation down to 2.4 per cent.

Underlying inflation is also low and falling. The Bank's measure of core inflation that excludes changes in agriculture and fuel prices was 3.0 per cent at March 2016, relative to 5.5 per cent the year before.

While some of the slowdown was caused by lower international oil prices, the low level of inflation is the result of Bank of Jamaica's monetary policy supported by the strong fiscal policy stance of the government. The fiscal anchor has proven to be a powerful force for macroeconomic stability. In line with this, inflationary expectations continue to be firmly anchored in single digits. The Bank's latest inflation expectations survey, conducted in February 2016, indicated a slight fall in expected inflation 12 months ahead to 4.3 per cent from 4.4 per cent in the December 2015 survey.

In the context of the outlook for low inflation over the near to medium term, the Bank maintained an accommodative policy stance. The signal rate, the interest rate on the 30-day certificate of deposit, was maintained at 5.25 per cent during the quarter.

There has been, however, a noteworthy pick up in the pace of exchange rate depreciation since the middle of April. The exchange rate depreciated by 0.9 per cent in April and 1.8 percent in May so far. This rate of depreciation is excessive and is not supported by the prevailing economic conditions.

The pressure in the foreign exchange market since April appears to have been influenced by specific financial account transactions and their impact on market pricing. The most significant of these appears to have been the prospect of a large US dollar bond issue in the local capital market by a foreign financial institution. This stimulated additional demand for foreign exchange and influenced expectations of further depreciation.

The Bank's assessment, supported in recent statements by the IMF, is that the Jamaican dollar is now fairly valued. In maintaining this position, the exchange rate can be expected to move in line with the difference between our inflation rate and that of our main trading partners.

This assessment reflects the substantial gains in external price competitiveness that have been achieved over the past four years. In addition, the current account of the balance of payments at current levels is sustainable. The estimated current account deficit of 2.2% of GDP for 2015/16 was more than covered by the inflows of foreign direct investment (estimated at 5.8% of GDP). Bank of Jamaica's forecast is for the current account deficit to remain within the range of 2.0 per cent to 3.0 per cent of GDP in FY2016/17. This experience of two consecutive years of low, sustainable deficits will be the first we have had in nearly 20 years and only the second time since 1963 that Jamaica will have had a sustained period of balance in the external current account.

Against this background, the Bank sold US$95 million into the market on 28 April. This transaction represented the single largest intervention volume sold to the market on any given occasion. It signalled the Bank's commitment to ensuring orderly adjustments in the exchange rate within the context of a flexible exchange rate system. Further, the Bank re-entered the market last week Friday (20 May) and has maintained a presence in the market since then with total intervention sales of US$63 million so far.

Turning from the recent episode of sharper-than-usual exchange rate depreciation, Bank of Jamaica has taken note of positive trends in other key macroeconomic indicators. Unemployment is declining, private sector credit for both personal and business purposes is expanding, market interest rates are falling, business and consumer confidence is high, the government bond market has reopened and the stock market is buoyant. Net international reserves have remained robust and continue to exceed benchmark adequacy levels. These developments are conducive to a pickup in economic growth, which the Bank expects in FY2016/17.

Looking forward, the Bank's policy stance will be geared towards maintaining low inflation as the foundation for higher GDP growth. The Bank's inflation target for FY2016/17 has been lowered to 4.5 per cent to 6.5 per cent. This target assumes that international commodity prices will gradually increase and that there will be continued improvements in domestic demand. The impact of the recently announced tax measures on inflation is not expected to be significant, although there is some risk arising from second round effects.

The IMF mission recently concluded the 11th and 12th reviews of Jamaica's economic reform programme under the Extended Fund Facility agreement. The mission chief indicated that all the quantitative targets and structural benchmarks for the December 2015 and March 2016 quarters were assessed to have been met, pending Board approval. Jamaica needs to press ahead with fiscal consolidation, structural reforms and actions to improve competitiveness so as to promote sustained growth and job creation. Following the general election in February 2016, the new government has signaled its commitment to this path through the maintenance of a strong fiscal stance in the 2016/17 Budget. This commitment and the improving outlook for inflation provide support for a further easing of the Bank's monetary policy stance.

Thank you.