BANK OF JAMAICA PRESS RELEASE

16 May 2018

BANK OF JAMAICA LOWERS POLICY RATE

Bank of Jamaica announces its decision to lower the policy interest rate (the rate offered on overnight deposits with Bank of Jamaica) by 25 basis points to **2.50 per cent**.

This policy stance reflects the Bank's assessment of inflation for the next four quarters and beyond. The Bank's assessment is that inflation over the next three quarters will fall slightly below the lower end of the Bank's target of 4.0 per cent to 6.0 per cent, before increasing towards the centre of the target in the following quarter.

The projected trajectory for inflation over the next four quarters primarily reflects the impact of the large fall in agricultural food prices, and consequently the CPI, in the March 2018 quarter. Inflation over this period will also be affected by increases in crude oil prices. The medium term outlook for inflation, however, continues to reflect a sluggish recovery in the real economy, even as projections show a modest acceleration in economic growth. Domestic demand is also expected to remain restrained by continued fiscal consolidation. Inflation expectations remain low and broadly anchored around the Bank's target.

The risks to the inflation forecast are assessed to be skewed to the downside. The major downside risks to inflation include weaker than anticipated domestic demand conditions and slower than anticipated global economic growth stemming from geo-political tensions and protectionist policies. One upside risk to inflation is higher than anticipated commodity prices, particularly the price of crude oil. The risk of adverse weather may also cause domestic agricultural prices to rise faster than anticipated.

Bank of Jamaica's decision to maintain an accommodative policy stance is aimed at supporting further credit expansion and faster GDP growth. When adjusted for expected inflation, the policy rate remains negative in real terms in a context of high liquidity in financial markets. These conditions are considered to be appropriate at this time given the weaker-than-desirable pace of credit expansion.

This decision is made against the background of positive macroeconomic indicators. Net international reserves are increasing and the current account of the balance of payments, while projected to widen, will remain at sustainable levels. Market interest rates are at record lows and falling and fiscal performance continues to be strong.