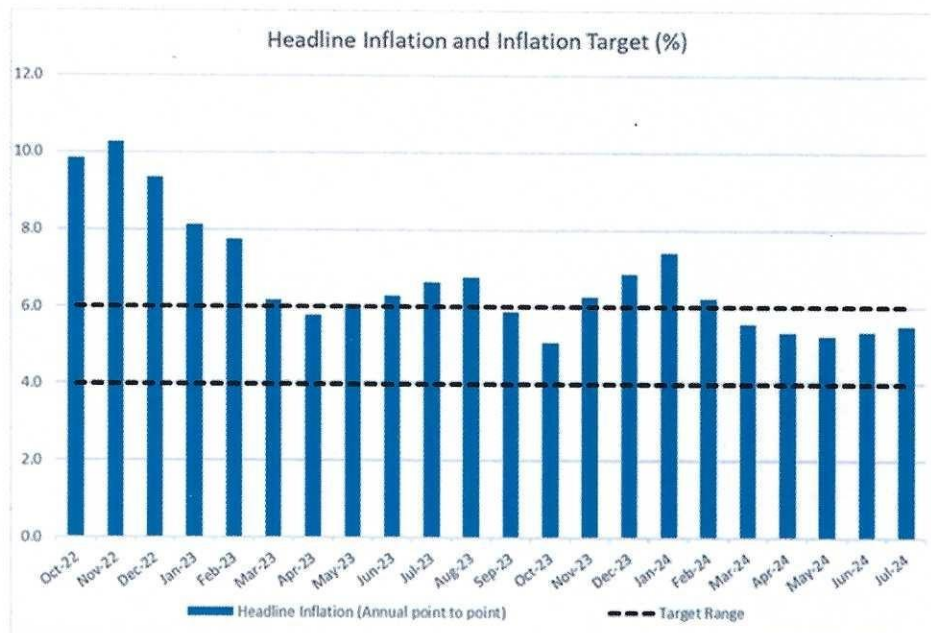




**Summary of
Monetary Policy Discussion and Decisions
August 2024**

At its meetings on 16 and 19 August 2024, the Monetary Policy Committee (MPC) noted the following:

1. **Headline inflation is becoming more anchored in the Bank’s target range of 4.0 to 6.0 per cent.** On 15 August 2024, the Statistical Institute of Jamaica (STATIN) reported that annual headline inflation at July 2024 was 5.1 per cent. This outturn was below the Bank’s most recent forecast and July was the fifth consecutive month in which inflation fell within the Bank’s target range. One measure of core inflation that excludes the prices of agricultural food products and fuel was 4.5 per cent at July 2024, which represented a progressive lowering of underlying inflation since the start of 2024.



2. **Despite the effects of Hurricane Beryl, inflation is projected to largely remain within the Bank’s target range over the next two years.** Inflation is projected to temporarily rise from its current level and breach the upper end of the Bank’s target range over the next three to five months (August to December 2024). This near-term forecast largely reflects the negative impact of Hurricane Beryl on agricultural supplies and related increases in other consumer prices. Following this shock, inflation is projected to return to the target range.
3. **Economic conditions are generally supportive of low, stable and predictable inflation in the future.** The MPC noted that, as stated by the Government, domestic fiscal policy will address the post-hurricane recovery efforts by utilising existing savings and insurance



and re-prioritising expenditures. In this context, the MPC is of the view that fiscal policy will continue to pose no risk to inflation over the near-term. The lagged effect of the Bank's relatively tight monetary policy posture also continues to impact the economy.

4. **Against this background, domestic demand conditions are moderating**, as reflected in selected sectors of the economy and in easing wage pressures. The net flow of new domestic currency loans to the private sector (expressed in constant prices) for the June 2024 quarter was consequently lower than the flows in both the March 2024 and the June 2023 quarters.
5. Inflation expectations in Jamaica are on a consistent downward path and the exchange rate has been fairly stable. The domestic price level has also been favourably supported by some international commodity prices as well as by the continued reduction in inflation in the United States (US).
6. **The risks to the inflation outlook are balanced (which means that inflation is likely to be in line with projections)**. Rising international shipping costs, worse-than-anticipated impact of Hurricane Beryl and other adverse weather conditions could influence higher inflation. The factors that could result in lower-than-projected inflation include weaker-than-projected global growth, which could reduce domestic demand and imported inflation.
7. **Against the background of these developments, the MPC at its meetings on 16 and 19 August 2024, assessed that the prevailing economic environment is conducive to a further cautious easing of its monetary policy stance and unanimously agreed to: (i) reduce the policy rate by 25 basis points (bps) to 6.75 per cent per annum, effective Wednesday, 21 August 2024; (ii) continue the gradual reduction of Bank of Jamaica's (BOJ's) absorption of liquidity from deposit-taking institutions (DTIs) through open market operations; and (iii) preserve relative stability in the foreign exchange market.** The MPC noted that its previous decision, announced on 28 June 2024, to gradually reduce the absorption of liquidity, has already resulted in an injection of \$20.5 billion into the system and a 105 bps reduction in the interest rates on BOJ's 30-day Certificates of Deposit. As a consequence, treasury bill rates fell by between 20 bps and 72 bps over the period 01 July 2024-to-date.

The following considerations also informed the MPC's decisions:

8. **In BOJ's June 2024 survey of businesses' inflation expectations, respondents lowered their expectations for inflation 12-month ahead to 7.6 per cent from 8.2 per cent, a continuation of a decline trend since the middle of 2022.** Expectations about exchange rate depreciation have also fallen appreciably, as reflected in the pricings in financial markets as well as responses to survey questions. As a result, the dollarisation of deposits in commercial banks has fallen noticeably over the past 25 months.
9. **Inflation, particularly inflation for processed foods such as cereals & cereal products and meat, has also been favourably supported by some international commodity prices as well as by the continued reduction in inflation in the US.** The international



prices for grains (including wheat, corn and soybeans) during the June 2024 quarter were lower, on average, by approximately 22.0 per cent, compared to the June 2023 quarter. Inflation in the US fell to 2.9 per cent at July 2024 from 3.2 per cent a year earlier, and from 9.1 per cent at July 2022. For Jamaica, lower grains prices and lower US inflation reduce the pace of increase in import costs and increase the likelihood of a reduction in interest rates in the US, all of which benefit our economy. Energy and shipping prices have, however, fluctuated and the MPC will need to keenly watch this issue going forward.

10. **While there will be an uptick in headline inflation over the next three to five months resulting from the effects of Hurricane Beryl, this uptick will be temporary.** The hurricane impacted the Island on the 3rd of July as a category four storm with maximum windspeeds of 230 kilometres per hour. Damage to public and private infrastructure is estimated to be significant. Preliminary estimates of the damage and loss to the Agriculture and Fisheries sector is \$5.7 billion (0.2 per cent of gross domestic product (GDP)). Crops in the traditional farming parishes such as St. Elizabeth, Manchester, Trelawny, St. Ann and Clarendon were the most severely affected. The Tourism sector was also negatively affected by a 4-day closure of Jamaica's international airports in the wake of the hurricane and the consequential temporary cessation of travel to the Island.
11. **Real GDP for the March 2024 quarter grew by 1.4 per cent, which was lower than the growth for the December 2024 quarter, and there are signs that economic growth slowed further in the June 2024 quarter.** When the underlying direction of economic activity and the impact of the hurricane in July are taken into account, GDP for the September 2024 quarter is projected to contract when compared with the September 2023 quarter.
12. **For fiscal year (FY) 2024/25, the Bank projects that real economic activity will be in the range of -1.5 to 0.5 per cent, while real GDP for FY2025/26 is projected to grow by 1.5 to 3.5 per cent.** The projection for FY2024/25 largely reflects the anticipated adverse impact of Hurricane Beryl on the economy and is underpinned by contractions for Agriculture, Forestry & Fishing and Construction. The outlook for FY2025/26 reflects a partial rebound in economic activity following the declines in FY2024/25.
13. The domestic banking system remains sound, with adequate capital and liquidity.
14. **The MPC noted that any future monetary policy decisions to further reduce interest rates will continue to depend on incoming data.**

Chairman of the MPC
20 August 2024