Richard Byles: Update and outlook for the Jamaican economy

Monetary Policy Press Statement by Mr Richard Byles, Governor of the Bank of Jamaica, at the Quarterly Monetary Policy Report press conference, Kingston, 21 May 2025.

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Introduction

Good morning and welcome to our Quarterly Monetary Policy Report press conference.

My statement today is set against the backdrop of a rapidly changing policy landscape in the United States and the global economy, which has implications for Jamaica's economic prospects. Since our last press conference in February 2025, the US government has been resetting trade relationships with its trading partners and has announced several economic policy changes, particularly relating to tariffs, immigration, remittances and fiscal operations. These policy announcements, negotiations and subsequent policy amendments have fuelled uncertainty in the world economy and have:

1. resulted in tariff retaliations by the major trading partners of the US, particularly China,
2. generated higher volatility in equity and bond markets in the US and around the World,
3. precipitated a fall in commodity prices and
4. stimulated a fall in consumer confidence in the US.

Naturally, there has been much uncertainty about the impact of these policies on the US economy but more so on the global economy, including Jamaica. Bilateral negotiations between the US administration and other countries surrounding tariffs, trade and investment policies are ongoing, and the outcomes of these negotiations are unknown at present. It appears, however, that the march of globalisation has generally paused and, when this resetting of trading relations has concluded, higher tariffs are likely to be part of a new global trading arrangement. Importantly, it appears at this stage that the final package of bilateral tariffs to be imposed on trading partners by the US, will be materially lower than those announced on the second of April 2025.

Monetary Policy Decision

Following careful consideration of the implications of these developments, recent economic trends and the outlook for the Jamaican economy, the MPC unanimously agreed to:

(i) reduce the policy rate (the rate offered to deposit-taking institutions (DTIs) on overnight placements with Bank of Jamaica) by 25 basis points from 6.00 per cent to 5.75 per cent per annum, effective 21 May 2025 and
(ii) preserve relative stability in the foreign exchange market.

Let me explain the rationale for this decision in the context of the new global environment.

Recent Economic Developments

First, the incoming economic data on Jamaica continue to point to a stable domestic economy with inflation remaining in the 4 per cent to 6 per cent target range. On the 15th of May, the Statistical Institute of Jamaica (STATIN) reported that headline inflation at April 2025 was 5.3 per cent, in-line with the outturn for April 2024. Headline inflation has therefore continued to remain within the Bank of Jamaica's target. Also, core or underlying inflation remains low. Core inflation (which excludes the prices of agricultural food products and fuel from the consumer price index (CPI)) was 4.4 per cent at April 2025, remaining below 6.0 per cent since July 2023. The stable and relatively low inflation outturn primarily reflected the end of the impact of previous price increases for regulated items (such as bus and taxi fares), and no new such increases, which offset higher food inflation. Moreover, the exchange rate, imported inflation and the private sector's expectations of future inflation (inflation expectations) have been fairly stable.

Expectations about exchange rate depreciation have also remained relatively stable. At the 14th of May 2025, the exchange rate had depreciated on a year-over-year basis by 1.9 per cent. There was a mild uptick in the pace of depreciation between end April and early May in the context of a slight increase in demand and a build-up of FX positions by Authorised Dealers. In response, the Bank augmented flows in the market. Cumulatively, BOJ has sold US$1.1 billion via its B-FXITT facility over the 12 months to end-April 2025, compared to US$983 million over the 12 months to end-April 2024. However, it is important to note that the Bank net purchased approximately US$1.1 billion over the 12 months period to April 2025. Therefore, as at 14 May, Jamaica's gross international reserves remains healthy, amounting to US$5.9 billion or 135% of the measure considered adequate.

There has also been a moderation in imported inflation in the March 2025 quarter relative to the December 2024 quarter. Specifically, oil prices declined during the quarter, relative to the previous year.

The Bank estimates that the domestic economy grew in the range of 0.0 to 1.0 per cent for the March 2025 quarter, which, translated into an estimated contraction of -1.0 to -0.5 per cent for FY2024/25. Finally, while employment levels remain high, anecdotal data suggest that wage pressures are moderating.

Near-term Outlook

In assessing the near-term outlook, the MPC contemplated the implications for the Jamaican economy of the policies that have been implemented by the US administration to date and in so doing, looked at several scenarios. From this exercise, the Bank's view is that the first-round impact of the increase in US tariffs on prices in Jamaica will not be significant.

For the US, the policies are likely to temporarily increase inflation. We expect that the US Federal Reserve (Fed) will respond appropriately, and we also anticipate a slowing of the pace of US economic growth. We note that the Fed maintained its interest rate target in the range of 4.25 to 4.50 per cent in May 2025 and is likely to continue to maintain rates for an extended period of time in 2025.

While some consumer prices in Jamaica may rise due to higher inflation in the US, the impact of imported inflation on overall domestic price level increases will be largely offset by falling world oil prices.

Given the available information, the Bank therefore projects a moderate impact of the US policy changes on prices in Jamaica. In this context, the outlook is for inflation to remain within the Bank's target range of 4 to 6 per cent over the next two years, notwithstanding some upside risk. This outlook assumes stable inflation expectations, a moderate decline in crude oil prices, continued stability in the exchange rate and moderate domestic demand.

The US policy changes may have some impact on Jamaica's GDP growth and the external accounts, to the extent that tourism and goods exports, as well as remittances are affected by these changes. Some of Jamaica's exports will be exempt from the baseline tariff imposed on Jamaica by the US and this may augur well for growth in those industries. The economy is, therefore, projected to grow moderately over the near term.

Against this background, and factoring domestic demand conditions, for FY2025/26 real GDP is projected to recover in the range of 1.0 to 3.0 per cent, largely reflecting normalisation in the mining, tourism and construction sectors. In this context, employment levels are projected to remain high, even as anecdotal data suggest that wage pressures are moderating.

The current account of Jamaica's balance of payments is projected to remain in surplus over the near-term and the international reserves are projected to remain healthy. The Bank projects that gross reserves will improve further over the medium-term, remaining above the Assessing Reserve Adequacy (ARA) 100 per cent benchmark.

Risks

The risks to the inflation forecast are skewed to the upside, which means that inflation could be higher than projected. Higher inflation could stem from a sharper-than-anticipated increase in the tariff faced by trading partners of the US. In addition, domestic inflation could be higher than projected if there is a further escalation in geopolitical tensions, which could negatively impact international supply chains. Lower inflation could, however, result from lower-than-projected international commodity prices as well as weaker demand conditions.

The MPC will therefore continue to carefully monitor domestic inflation expectations and any upward pressure on prices caused by the evolving tariff landscape. The Bank is prepared to adjust the stance of monetary policy if its outlook does not materialise and there is an upward deviation of the inflation rate from the Bank'starget range. Importantly, the Bank is well positioned to support stability in the foreign exchange market, should the effects of the policy changes abroad affect foreign exchange flows by more than currently anticipated.

Concluding Statement

Ladies and gentlemen, Bank of Jamaica remains committed to achieving its primary mandate of maintaining inflation at 4.0 to 6.0 per cent and will deploy the tools necessary to preserve price and foreign exchange market stability. The external environment carries much uncertainty but the domestic macroeconomic outlook remains stable in the Bank's view.

Thank you. I will now take questions.