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, 22 December 2025.

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Introduction

Good morning, ladies and gentlemen and welcome to another Bank of Jamaica Quarterly Monetary Policy Report press conference.

The Jamaican society and economy have been severely impacted by Hurricane Melissa. Latest estimates indicate that the damage to critical infrastructure – including roads, houses, factories, schools, other buildings, the electricity grid and other public and private assets – amounts to approximately US$8.8 billion, or more than 40 per cent of GDP. This is a significant upward revision from the previous initial estimate of 30 per cent.

The agriculture sector has been particularly devasted, with damage estimated at approximately US$389 million. Given agriculture's central role in food supply and livelihoods, this loss has far-reaching implications for prices, incomes and overall economic activity.

The Tourism sector, particularly properties in western parishes, also sustained significant damage, with 43 per cent of room stock closed immediately after the storm. While some less-affected properties have since reopened and resumed bookings, widespread cancellations and delayed reopening by major hotel chains will reduce tourism earnings in the near term. Already, we have received reports indicating worker lay-offs.

Importantly, the upward revision of the damage estimate creates a greater risk that higher inflation could be prolonged. Beyond the immediate impact on agricultural food and electricity prices, the later effect of this inflation shock on the prices of other goods and services, is likely to be stronger and more persistent than initially anticipated. As a result, the upside risk of the disaster on the inflation outlook is greater, meaning that inflation could be higher than forecast.

Monetary Policy Decision

It is in this context and given the Bank's primary mandate of managing inflation that the MPC decided unanimously to:

(i) continue holding the policy rate at 5.75 per cent per annum; and
(ii) remain proactive in preserving relative stability in the foreign exchange market.

- The decision to continue holding the policy rate at this time is largely based on four main factors:

First, annual headline inflation will rise sharply over the next few months from the 4.4 per cent recorded in November 2025, and will exceed the Bank's inflation target range of 4.0 to 6.0 per cent by early 2026. This rise primarily reflects the hurricane's impact on the major food-producing parishes and disruptions to supply chains, particularly in energy and agriculture. These supply-side shocks lie outside the direct influence of monetary policy and therefore cannot be addressed through interest rate actions, but will have a knock-on effect on other prices.

- The second factor concerns core Inflation. Core inflation (which excludes the prices of agricultural food items and fuel from the consumer price index (CPI)) will also rise over the next 12 months breaching the inflation target range in early 2026. This will reflect another wave of price increases for other goods and services such as home repairs, meals sold at restaurants and personal care items. The higher core inflation will arise in the context of the anticipated surge in overall spending and economic activities related to recovery and the rebuilding efforts, supported largely by flows of external financing to the private and public sectors. The central bank is therefore positioning monetary policy to minimise such second-round effects and to constrain the inflation expectations of businesses and consumers.
- The third factor that figured prominently in the decision to hold the policy rate unchanged at this time, is the path for the fiscal or government accounts. In the aftermath of the hurricane, the government suspended the fiscal rule for an initial period of one year. This will facilitate the public sector's ability to increase spending for the recovery and relief effort. For the central government, in particular, larger fiscal deficits are projected over the next three fiscal years, compared with previous projections. While the additional government spending is absolutely essential to rebuild the foundations of the economy following such a catastrophic event as Hurricane Melissa, the Bank has to position its policy to temper any possible inflationary impulses from this increased spending.
- The fourth factor which the MPC considered is that the risks to the inflation outlook are skewed strongly to the upside. This means that there is a greater likelihood of inflation exceeding projections. Higher inflation could result from higher-than-expected demand to support the reconstruction efforts. Inflation expectations could also rise, as households and firms anticipate higher prices and adjust their behaviour in ways that make higher inflation self-fulfilling. A more protracted recovery in the agriculture sector and more prolonged disruptions to its supply chains could also worsen food price increases. There could also be long-term damage in specific industries, which could slow the improvement in the production and availability of supplies.

In our previous press release in November, we noted that special pre-emptive measures would be taken to preserve relative stability in the foreign exchange market. These measures took into consideration the need for additional foreign exchange to finance increased imports made necessary by the rehabilitation and reconstruction efforts. Consequently, since the passage of the hurricane, Bank of Jamaica has sold US$250 million into the market. We have also directly supplied the foreign exchange needs of selected players in the energy sector to take large lumpy purchases out of the market, as well as re-introduced scheduled advanced notices of intervention sales in order to assure the market of adequate foreign currency liquidity. With these actions, the exchange rate has remained stable over the period 01 November to 16 December 2025 compared to end-October 2025.

Cumulatively, BOJ sold US$1.1 billion via its B-FXITT facility over the 12 months to end-November 2025, largely in line with the amount sold over the 12 months to end-November 2024. Net foreign exchange purchases have amounted to approximately US$1.0 billion over the 12 months to end-November 2025. Going forward, the Bank will continue to proactively take steps to maintain orderly conditions in the foreign exchange market as instability in this market can fuel higher prices throughout the economy.

I will now briefly highlight some recent economic developments, starting with the most recent inflation data.

Recent Economic Developments

On the 15th of December, the Statistical Institute of Jamaica (STATIN) reported that headline inflation at November 2025 was 4.4 per cent, which was above the Bank's projections and higher than the 2.9 per cent recorded at October 2025. The higher inflation compared with October was due mainly to higher food price increases, reflecting early signs of the impact of the hurricane on raw food prices. Core inflation was 4.3 per cent at November 2025, which was above the 3.7 per cent recorded at October 2025.

Inflation is projected to rise above the Bank's target range over the next four quarters, peaking in the June 2026 quarter and, as supply conditions improve along with the appropriate monetary policy response, will moderate back to the target range in early 2027.

The near-term macroeconomic outlook for the Jamaican economy has been adversely affected by Hurricane Melissa. The PIOJ estimates that the economy will contract in the range of 11 to 13 per cent in the December 2025 quarter.

While economic activity will contract in the immediate aftermath of the hurricane, the Bank projects that the funding inflows from multilateral and private sources will support spending in the economy over the next three years, to the extent that the capacity exists to execute planned projects. For the Financial Year 2025/26, the Bank anticipates a decline in real GDP in the range of minus four (-4.0) to minus six (-6.0) per cent, largely due to the extensive damage to infrastructure and disruption to productive activity. For Financial Year 2026/27, real GDP growth is projected in the range of minus one (-1.0) to one (1.0) per cent, reflecting the start of recovery efforts, which will pick up pace in ensuing years.

Jamaica's external accounts are also expected to deteriorate over the near-term. The current account is expected to worsen to a deficit, a major change from the surpluses recorded over the three prior fiscal years. The projected deficit will result primarily from a worsening in the trade deficit, and lower tourism inflows, partly offset by higher remittances. In particular, exports are projected to be lower on average primarily due to the projected falloff in Manufacturing, Mining and Quarrying, Agriculture and Re-exports. Imports, on the other hand, are projected to be higher on average, underpinned by higher consumer goods as well as greater demand for raw materials, transport equipment and capital goods imports. The increase in the importation of transport equipment and capital goods is related to the ongoing relief efforts and to support reconstruction thereafter.

Notwithstanding the worsened external position, Jamaica's international reserves remain robust, standing at a historically high level of US$6.3 billion at 16 December 2025, representing about 151 per cent of the measure considered adequate. These reserves will be buoyed by the various disaster risk financing, multilateral funding and grant flows, including the receipt of the proceeds related to the Caribbean Catastrophe Risk Insurance Facility and the Catastrophe Bond.

Concluding Statement

Ladies and gentlemen, the extensive damage from Hurricane Melissa, particularly in Western Jamaica, is expected to adversely impact the country's key macroeconomic indicators for quite some time. Against this stark backdrop, BOJ's Monetary Policy Committee reaffirms its view that preserving a stable macroeconomic environment is essential to the country's recovery and reconstruction efforts. The Bank remains firmly committed to managing the inflationary effects of the hurricane, recognizing that if inflation is not tamed, every sector of the Jamaican society will be adversely impacted especially the poor and most vulnerable. Accordingly, the MPC will continue to keenly monitor the future impact of higher food prices on the level of overall inflation, and stands ready to adjust monetary policy if the risks highlighted earlier threaten the projected return of inflation to the 4 to 6 per cent target range in the shortest possible timeframe.

Thank you. I will now take questions.