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 August 2025.

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Introduction

Good morning and welcome to Bank of Jamaica's Quarterly Monetary Policy Report press conference.

Monetary Policy Decision

Earlier this week, the Monetary Policy Committee (MPC) deliberated on the Bank's policy stance against the background of low domestic inflation, continued growth in the Jamaican economy, a sound external account and record high levels of reserves. The deliberations also considered the uncertainties in the global economy.

From those deliberations, the MPC determined that the current stance of monetary policy remains appropriate to support the containment of inflation within the Bank's target range of 4.0 to 6.0 per cent over the next two years.

As such, the Committee unanimously agreed to:

(i) maintain the policy rate at 5.75 per cent per annum; and
(ii) continue to pursue measures to preserve relative stability in the foreign exchange market.

I will now briefly highlight the factors that informed the MPC's decision, starting with the most recent inflation data.

Recent Economic Developments

On the 15th of August, the Statistical Institute of Jamaica (STATIN) reported that headline inflation at July 2025 was 3.3 per cent, which was lower than the outturn a year ago and below the lower end of the Bank's inflation target of 4.0 per cent to 6.0 per cent. Core inflation (which excludes the prices of agricultural food products and fuel from the consumer price index (CPI)) was 4.3 per cent at July 2025, which was also below the rate at July 2024.

The significant reduction in headline inflation over the year primarily reflected the impact of a set of temporary factors, including:

1. The ending of the impact of previous increases in public transport fares and the non-imposition of new increases,
2. The effect of the reduction in the General Consumption Tax (GCT) rate on electricity prices; and

3. A faster pace of reduction in agricultural prices, due to improved conditions in the sector.

Inflation has also been anchored by falling energy prices, particularly for crude oil, and fairly stable inflation expectations – that is, the inflation rate businesses and consumers expect in the future.

The fact that the low inflation rate (below the target range) currently prevailing is being driven by these temporary factors, means that inflation will eventually return to the target range, once the cumulative impact of these factors subsides.

The developments in the foreign exchange market were also considered by the MPC. The market recently experienced slightly higher-than-usual volatility, again, due to temporary factors. The exchange rate at end June depreciated by 2.5 per cent compared with the rate at end-December 2024, which was faster than the pace for the previous six months. This unsteadiness was particularly evident in April and May, underpinned by temporary factors, including:

a. uncertainties about developments in the global economy,
b. the movement of the rate through the psychological threshold of $160 to $1, and
c. a narrowing of the gap between domestic market interest rates and those in external markets.

In this context, expectations about exchange rate depreciation may have increased during the June 2025 quarter. This was indicated by financial actors increasing their net open positions – that is, the difference between their foreign currency assets and foreign currency liabilities – in response to changes in their views about foreign exchange risk. In addition, the dollarisation ratio increased in May from the lowest level in the past five years which was recorded at February 2025. This dollarisation ratio, which is the stock of foreign currency financial assets held in the system by the public, as a percentage of their total financial assets, is also a measure of the public's view about exchange rate risk.

The Bank's participation in the market has remained broadly unchanged, when compared with the last time I spoke to you. Cumulatively, BOJ has sold US$1.2 billion via its B-FXITT facility over the 12 months to end-July 2025, compared to US$956 million over the 12 months to end-July 2024. However, the Bank net purchased approximately US$931.0 million over the current period.

At the same time, the current account of Jamaica's balance of payments remains in surplus, reflecting continued growth in remittance inflows and tourism arrivals, despite the policy changes in the external environment. In this context, as at 12 August, Jamaica's gross international reserves stood at a historically high and healthy level of US$6.2 billion, or 148% of the measure considered adequate.

Supported by strong economic fundamentals and BOJ's intervention to smooth out the volatility in the foreign exchange market, expectations have normalised. Since end June, the pace of depreciation has fallen and there has been a reduction in the market's net open position.

Ladies and gentlemen, the Bank remains committed to presiding over the policy of maintaining a flexible exchange rate regime. So long as inflation in Jamaica over the long run exceeds that of its main trading partners, the public should expect that the exchange rate will fluctuate around some trend.

Near-term Outlook

The economic outlook remains clouded by uncertainties around the United States' policies as it continues to reset its trading relationships and to tighten its immigration policies. These developments may slow the pace of economic activity and could cause inflationary pressures in the US, which could adversely affect the Jamaican economy.

Against this background, the outlook is for inflation in Jamaica to generally remain below the lower end of the inflation target over the next few months, but to return to the 4 to 6 per cent corridor over the next two years. As I noted earlier, the projected lower-end breaches will mainly reflect the temporary impact of improved agricultural supplies, following the shock to the agriculture sector in 2024, as well as lower electricity costs resulting from the reduction in GCT on electricity consumption. The Bank also projects that the first-round impact of the increases in tariffs by the US on prices in Jamaica will be marginal. The overall outlook assumes continued low imported inflation (particularly grains and oil) and stable inflation expectations.

The current account of Jamaica's balance of payments is also projected to remain in surplus over the near term and the international reserves are projected to improve further.

In relation to GDP growth, Bank of Jamaica estimates that the domestic economy grew in the range of 1.0 to 2.0 per cent for the June 2025 quarter, due to expansion in most industries. Economic activity is projected to continue to expand in the September 2025 quarter. For FY2025/26, the Bank projects that growth will recover in the range of 1.0 to 3.0 per cent largely due to the agriculture, mining and tourism sectors. Subsequently, growth is forecast to normalise in the range of 1.0 to 2.0 per cent. Employment levels remain high, even as anecdotal data suggest that wage pressures are moderate.

Risks

The risks to the inflation forecast for Jamaica are skewed to the upside, which means that inflation could be moderately higher than projected. Higher inflation could stem from a sharper-than-anticipated increase in the tariff faced by the US' trading partners, resulting in higher imported inflation and elevated inflation expectations. In addition, 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.

Concluding Statement

Ladies and gentlemen, even with uncertainty and the potential of headwinds in the global landscape, Bank of Jamaica reaffirms its commitment to maintaining low and stable inflation, at 4.0 to 6.0 per cent, and will deploy the tools necessary to preserve price stability. Bank of Jamaica will continue to carefully monitor the incoming data and adjust its policy accordingly. Moreover, the Bank's Monetary Policy Committee remains committed to its work programme to further strengthen the policy transmission process.

Thank you. I will now take questions.