GOVERNOR

BANK OF JAMAICA
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KINGSTON, JAMAICA, W.I.

1 September 2025

The Honourable Fayval Williams, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
30 National Heroes Circle
Kingston 4

Dear Minister Williams:

Breach of Inflation Target

By letter dated 29 April 2024 from the Minister of Finance and the Public Service, Bank of Jamaica's (BOJ's) Monetary Policy Committee (MPC) was set a target range for annual inflation of 4.0 to 6.0 per cent over the next three years. Inflation is measured by the 12-month point-to-point percentage change in the Consumer Price Index (CPI) and is prepared and published by the Statistical Institute of Jamaica (STATIN).

This target became operational as of the April 2024 CPI outturn and applies continuously, that is, for each month over the next three years. The letter also stated that whenever inflation deviates from the target range, the MPC must explain the deviation within 60 days of publication of the outturn by STATIN.

In my previous correspondence to you on this matter, dated 29 November 2024, I stated that inflation was projected to remain broadly within the Bank's target range over the next two years. The primary reason for this projection was the view that the key drivers of headline inflation, such as international grain prices, inflation expectations and inflation in the economies of Jamaica's main trading partners, were all trending downward.

Since my letter, while there has been an overall moderation in domestic consumer price increases, inflation for June 2025 and July 2025 were 3.8 per cent and 3.3 per cent, respectively, which represent breaches of the lower end of the Bank's inflation target range. Notwithstanding these breaches, core inflation for both months was 4.3 per cent, which was lower than the average of 4.6 per cent for the same two months in 2024. The breaches of the target by headline inflation were primarily due to the following temporary factors:

1. A decline in agricultural price inflation, relative to the peak in December 2024, due to improved supplies following adverse weather conditions in 2024.
2. A reduction in the General Consumption Tax (GCT) on electricity consumption announced by the Government in March 2025, which impacted the inflation outturn for June 2025.
3. The dissipation of the impact of a previous adjustment in public transport fares.

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The annual changes in agricultural prices (as measured by the Vegetables, tubers, plantains, cooking bananas and pulses sub-division of the CPI) at June and July 2025 were significantly lower, relative to the 8.7 per cent increase recorded at May 2025. The annual point -to-point increase in agricultural prices at June 2025 was 1.0 per cent, while agricultural prices declined year-over-year at July 2025 by 3.2 per cent. This deceleration reflected the impact of improvements in agricultural supplies, following adverse weather conditions in 2024.

In March 2025, the Government announced the following changes to electricity billing: (i) a reduction in the GCT rate for residential customers to 7.0 per cent from 15.0 per cent; (ii) a 7.0 per cent GCT rebate for post-paid residential customers consuming 250 kilowatt-hour (kWh) or less per month; and (iii) a 3.0 per cent subsidy for post-paid residential customers within the same consumption threshold. The effective date of these measures was May 2025. The Bank estimates that these policy changes caused the CPI at June 2025 to fall by approximately 0.2 percentage point, which contributed to the deceleration in the annual headline inflation rate from 5.2 per cent at May 2025 to 3.8 per cent at June 2025.

Other factors such as international commodity prices (particularly oil) and inflation expectations have contributed to the deceleration in inflation since May 2025. At June 2025, the average price of crude oil over the preceding 12 months was lower by 11.7 per cent, compared to the same measure at June 2024. In the June 2025 Survey of Businesses' Inflation Expectations, respondents generally maintained their expectations for inflation 12 months ahead at 7.1 per cent, relative to 7.2 per cent in May 2025.

What is the Near-Term Path & the Attendant Risks for Inflation to Return to the Target?

The inflation outlook remains clouded by uncertainties in the global environment. The United States (US) continues to reset its economic relationships with its trading partners and tighten its immigration policies. These developments may slow the pace of economic activity and could stimulate inflationary pressures in the US, which could adversely affect the Jamaican economy.

Over the next two years, headline inflation is projected to trend within the Bank's target range, supported by moderating imported inflation and stable inflation expectations. This is in a context where core inflation is projected to decelerate to an average of 4.5 per cent over the near-term, compared with 4.8 per cent over the past two years. Inflation is, however, forecast to generally remain below the lower end of the inflation target between the September 2025 and the March 2026 quarters, but is expected to return to the 4.0 to 6.0 per cent range over the next two years. These projected breaches of the lower end of the inflation target mainly reflect the temporary impact of the improved agricultural supplies and the reduction in the GCT on electricity charges. 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 a continued deceleration in imported inflation (particularly grains and oil) and stable inflation expectations. Fuel and grain prices are projected to fall gradually over the next two years. West Texas intermediate (WTI) crude oil prices are projected to average US$63.78 per barrel between September 2025 and June 2027, implying an average quarter-over-quarter decline over the period of 0.3 per cent. This forecast is lower than the 8-quarter-ahead forecast outlined in my previous letter. The average price of grains is also projected to decline at an average quarter-over-quarter rate of 0.5 per cent over the same period. US liquefied natural gas (LNG) prices are, however, projected to increase gradually.

The risks to the inflation forecast 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 trading partners of the US, resulting in higher imported inflation and 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.

Bank of Jamaica's Policy Actions to Return Inflation to Target

At its most recent policy meeting on 18 and 19 August 2025, the MPC deliberated on the Bank's monetary policy stance against the background of low domestic inflation amid global uncertainties. The MPC determined that the current stance of monetary policy remains appropriate to support the containment of inflation within the target range over the next two years. The Committee, therefore, unanimously agreed to (i) hold the policy rate (the rate offered to deposit-taking institutions (DTIs) on overnight placements with BOJ) at 5.75 per cent per annum, and (ii) preserve relative stability in the foreign exchange market.

The decision to hold rates was made notwithstanding the projection for inflation to be below the lower end of the target range over the next few months, given that these breaches were related to temporary factors. The decision was also made in the context of the continued uncertainty around global trade policy and the path of interest rates in the major developed markets, as well as geopolitical developments that continue to upwardly influence inflation risks.

The MPC reaffirmed its commitment to maintaining low and stable inflation and will deploy the tools necessary to preserve price stability. The Committee will continue to carefully monitor the incoming data and adjust its policy accordingly. Moreover, the MPC remains committed to its work programme to further strengthen the policy transmission process.

Minister, we stand prepared to provide any clarification that may be required concerning this submission.

Yours sincerely,

Richard Byles