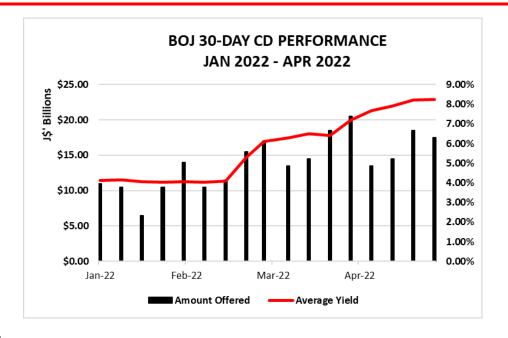
## **Interest Rate Developments**







## **OBSERVATION:**

Over the past six months, the BOJ has been aggressively adjusting its monetary policy. Since September 2021, the policy rate has increased from 0.50% to 4.50%. Consequently, market-determined interest rates have adjusted accordingly.

The weighted average yield on the BOJ CD has jumped from 2.59% in September 2021 to 8% in April 2022. Likewise, the weighted average yield on the 6 month T-bill has increased from 1.66% to 8.46%. This effectively has reduced the liquidity (availability) of JMD and should slow demand for goods and services in the coming quarters. The primary reasons for BOJ facilitating the higher interest rate environment locally are:

- To slow the rate of inflation. For the 12-month ending March 2022 the rate of inflation was 11.3%. This is largely attributable to supply chain challenges, which have further been exacerbated by the Russia-Ukraine invasion.
- To maintain the competitiveness of the JMD. Given the global impact of price increases, other countries
  including the USA has increased interest rates to combat inflation. It is likely that the US central bank
  will increase rates further in May 2022. The higher interest rates locally (for JMD) may encourage
  investors to hold JMD and ease the pressure in the USD FX market.

## **OUTLOOK:**

Given the current uncertainties, it is likely interest rate on JMD assets will remain elevated over the near to medium term. BOJ anticipates inflation to peak within the range of 9% to 11% over the next four quarters. Consequently, BOJ's current actions are likely to persist until the rate of inflation ease within the band of 4% - 6%.

The Bank of Jamaica is set to announce its next policy decision on Thursday, May 19, 2022. It is likely that an additional 50 to 75bps will be added to the overnight policy rate. Given this course of action, the new rate will range from 5% to 5.25%. Therefore, it is expected that the yields offered on 30-day CDs will climb closer to 10% in the upcoming quarter. Moreover, continued stability will be realized in the FX market given the attractiveness of the JMD currency. Over the past 12 months, the Jamaican dollar has only depreciated 0.60%.