

Inflation Targeting Declassified

The Bank's Forecast And Policy Assessment System
(FPAS)



Inflation Targeting Declassified



The step-by-step process of how BOJ targets inflation

- 1 What is the Forecasting Policy Assessment System (FPAS)?
- 2 How is the inflation target set?
- 3 How are forecasts & scenarios generated?
- 4 How are policy decisions made?
- 5 It's time to talk –
Internal/ External Communication



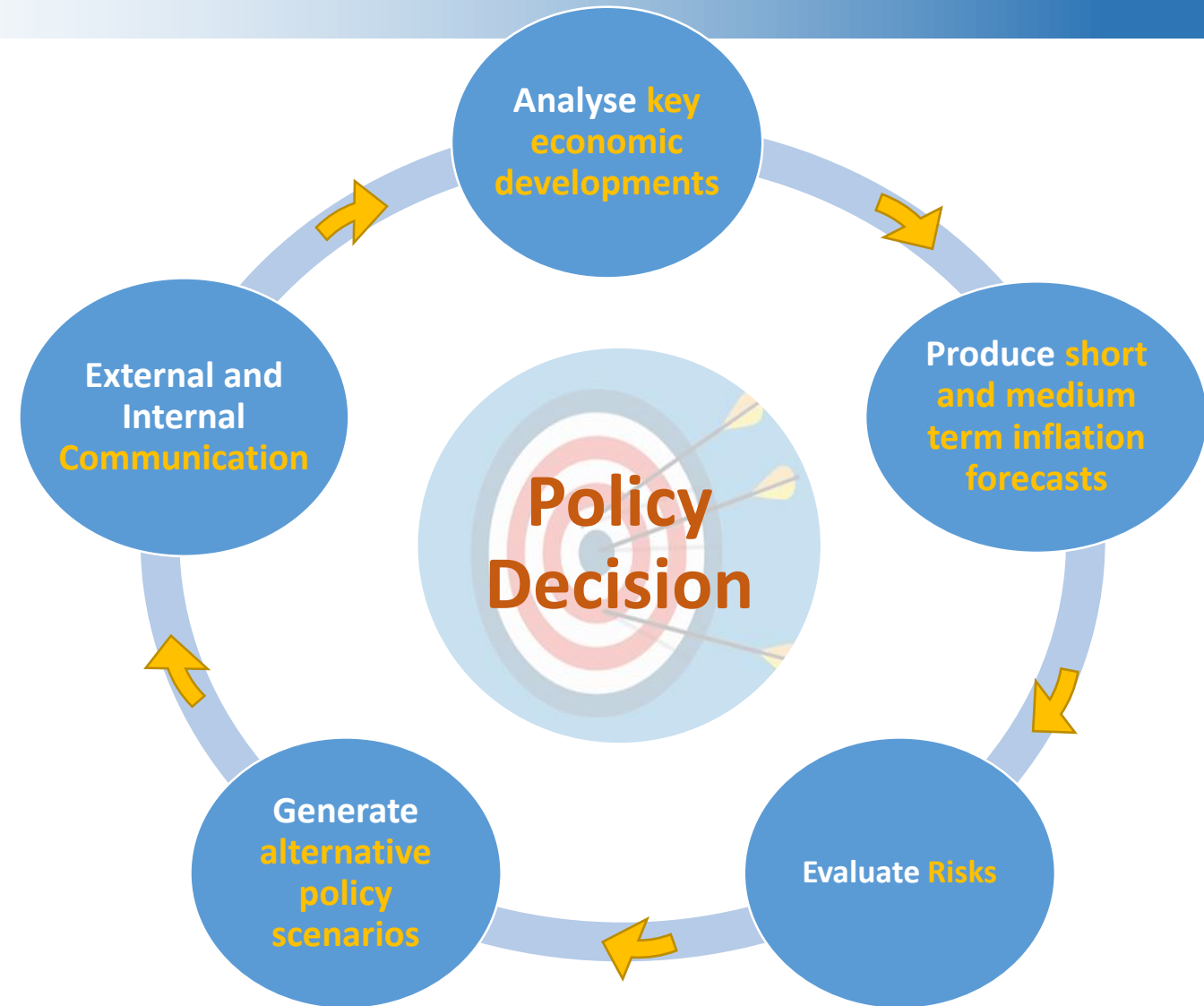
What is the FPAS?

What is the FPAS ?



The Forecasting & Policy Assessment System (FPAS) is the process used by the BOJ to develop **comprehensive macroeconomic forecasts** to support monetary policy decisions geared at the **attainment of the medium term inflation target.**

What is involved in the FPAS?



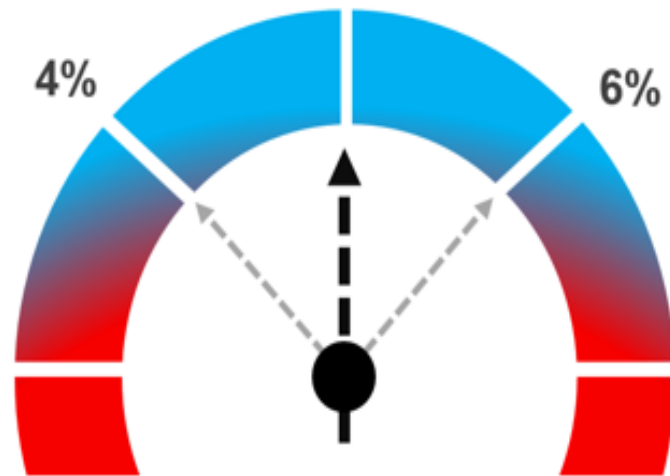
The end result of the FPAS is a **monetary policy decision** that normally will be one of the three following options:

- (i) Increase the policy rate
- (ii) Maintain the policy rate unchanged
- (iii) Reduce the policy rate.

How is inflation target set?

4.0% to 6.0%
Jamaica's Medium Term Inflation Target

5%

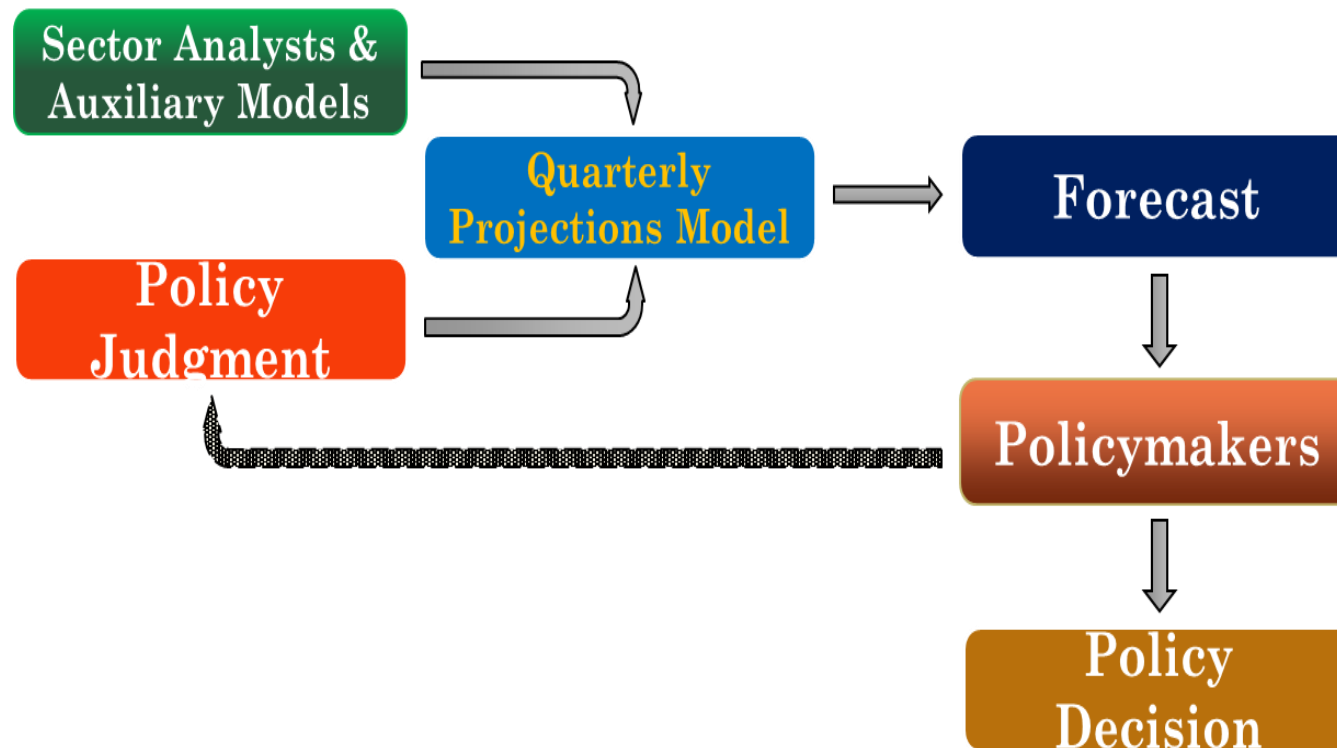


Based on the Bank's assessment, a medium term inflation target of 4.0 per cent to 6.0 per cent was recommended and subsequently approved by the Minister of Finance.

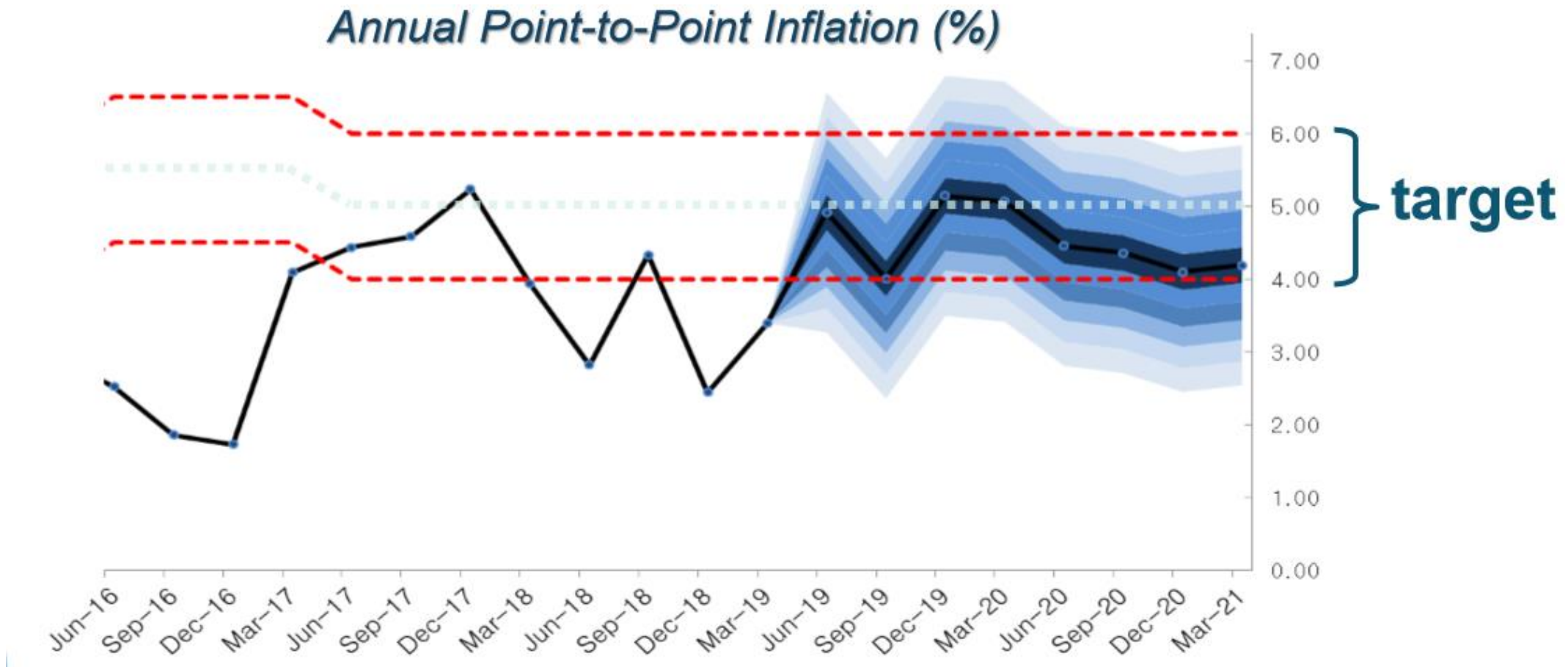
The establishment of a medium-term target allows the public to hold the Bank to account for the outcomes from implementing a **forward-looking monetary policy strategy**, given the lags in the monetary transmission mechanism (between 4 to 8 quarters).

How are forecasts & Scenarios Generated?

The Bank undertakes the **FPAS assessment 8 times per year** – 4 risk assessments and 4 comprehensive macro forecasts (i.e. covering the international economy, the fiscal accounts, the monetary accounts, balance of payments, credit, interest rates, GDP and inflation)

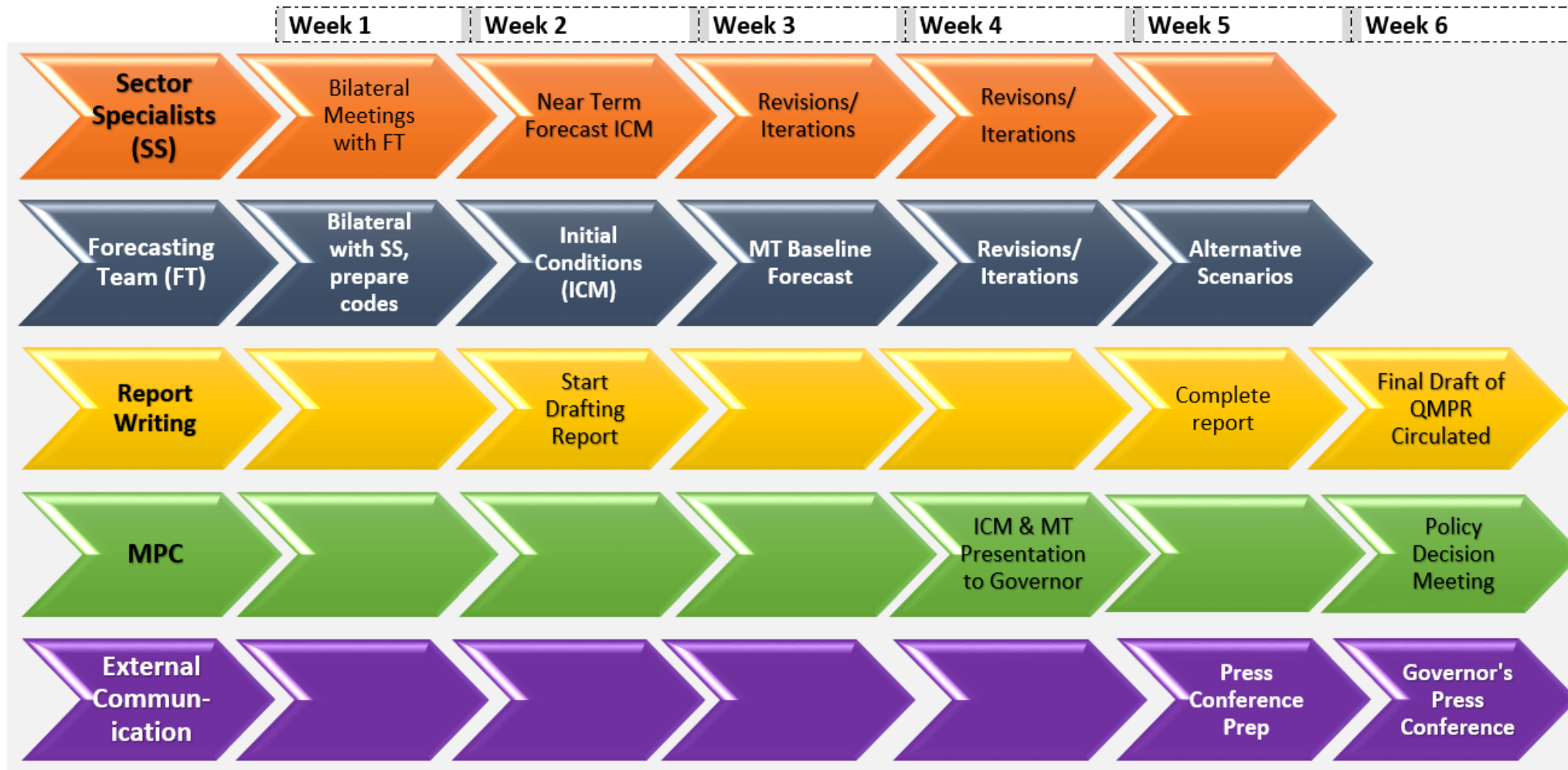


The Inflation Fan Chart is the Main Result of the FPAS



The chart shows the forecast for inflation as well as the risks associated with the forecast. The darker the shade the higher the probability of the forecast.

Timeline - Generating the Forecast and Scenarios – “The 6 Week Process”



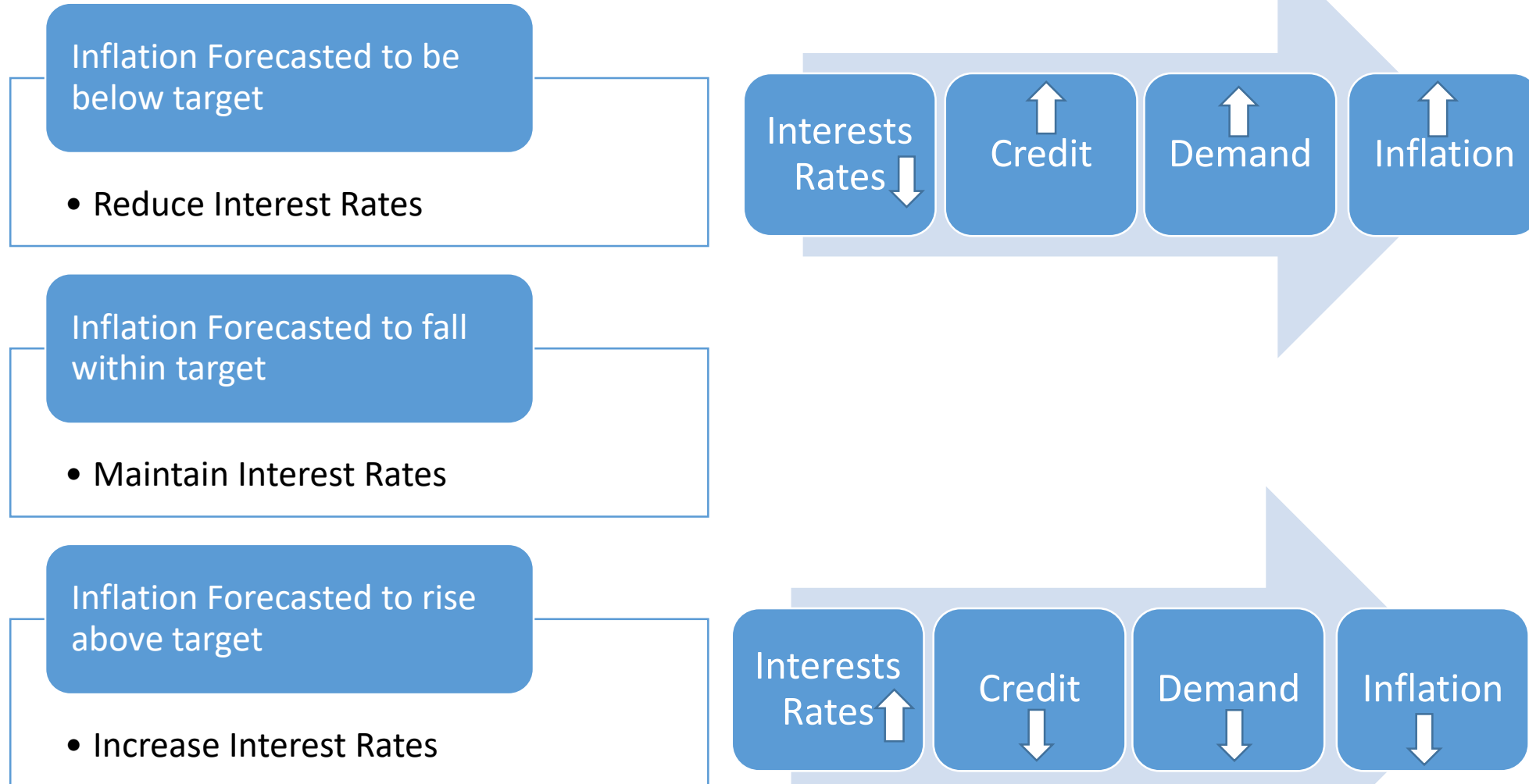
How are policy decisions made?



From the various projections (baseline projections and alternative scenarios), the policy makers essentially decide which view of the economy to take and then bases the monetary policy decision on this view.

Decisions are currently taken solely by the Governor. This will however change in the new MPC (if passed).

Simplified Policy Decision Matrix



How are policy decisions made?



Our policy actions are geared to impact inflation using principally the credit channel and growth - we take the exchange rate as a given since we operate a flexible regime.



**It's time
To Talk!**

External Communication



Bank of Jamaica

May 24 at 6:13 PM · 🌐



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Clear & Effective communication improves the credibility of the central bank which enhances the effectiveness of monetary policy.

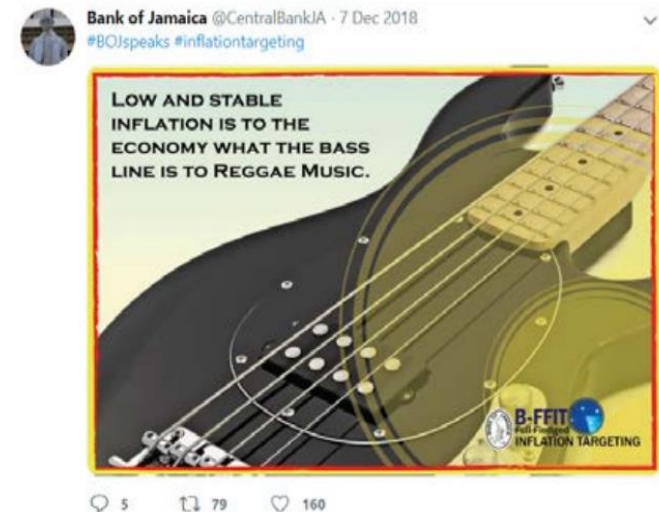


Source: Facebook

How can you be informed?



In an effort to improve the transparency of the monetary policy framework, BOJ has published a schedule detailing the announcement dates of monetary policy decisions since 2018.



Source: Twitter

2019 Monetary Policy Announcement Dates

Announcement Dates*	Publications	Policy Rate (%)	Change (%pt)
20-Feb-19	Interest Rate Announcement and Monetary Policy Report	1.5	-0.25
27-Mar-19	Interest Rate Announcement	1.25	-0.25
17-May-19	Interest Rate Announcement and Monetary Policy Report	0.75	-0.5
27-Jun-19	Interest Rate Announcement		
27-Aug-19	Interest Rate Announcement and Monetary Policy Report		
30-Sep-19	Interest Rate Announcement		
19-Nov-19	Interest Rate Announcement and Monetary Policy Report		
20-Dec-19	Interest Rate Announcement		

**Released at the close of business on each announcement date*

- This calendar is reviewed and, if necessary, updated every six months.

We also...

- Host **quarterly press conferences** to discuss the rationale for decisions and the economic outlook for Jamaica.
- Explain topical issues through its flagship radio programme – ‘**Centrally Speaking**’ (IRIE FM 6:30 pm on Tuesdays)
- Maintain an active **social media** presence on Twitter and Facebook.
- Launched a series of **Ad Campaigns** to sensitize the public via print and electronic media.



Thank-You

