



BANK OF JAMAICA

**MINUTES OF THE
MONETARY POLICY COMMITTEE MEETINGS
HELD VIRTUALLY**

ON

FRIDAY, 14 MAY 2021 AND MONDAY, 17 MAY 2021

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Minutes of the Monetary Policy Committee meetings held virtually on Friday, 14 May 2021 (Briefing Meeting) at 9:04 a.m. and continued on Monday, 17 May 2021 (Decision/Communication Meeting), at 9:00 a.m. via GoToMeeting.¹

Attendance

The following members of the Committee were present:

Mr. Richard Byles	Chairman
Dr. Wayne Robinson	Senior Deputy Governor
Mr. Robert Stennett	Deputy Governor
Dr. Nadine McCloud	Appointed Member, MPC
Mr. David Marston	Appointed Member, MPC

Other attendees included:

Mrs. Karen Chin Quee Akin	Deputy Governor/General Counsel
Ms. Carey-Anne Williams	Division Chief, REPD
Mrs. Sharon Miller-Betty	Deputy Division Chief, REPD
Ms. Arlene Tomlinson ²	Senior Director, Board/Management Secretariat
Mrs. Karelle Tyrell ³	Head, Monetary Policy Communication Unit, REPD
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Ms. Shannon Spencer	Monetary Policy Committee Corporate Secretary

1.0 Opening Remarks

1.1 On 14 May 2021, the inaugural Monetary Policy Committee meeting commenced with the Chairman advising the Committee of its remit. According to section 34FF of the Bank of Jamaica Act, the Minister of Finance and Public Service, after consultation with the Governor, sets the inflation target for Jamaica.⁴ On 16 April 2021, the Minister confirmed that the inflation target for Jamaica, calculated as the 12-month point-to-point percentage change in the consumer price index as measured by the Statistical Institute of Jamaica, was 4.0 - 6.0 per cent. The Minister further advised that the operational target for the MPC was 5.0 per cent, which was the midpoint of this range. This target would be in effect for the next three years and would apply continuously, that is, for each month over the period.

1.2 The Chairman informed the members of the Committee that other Bank of Jamaica staff would be regular attendees. These included Ms. Carey-Anne Williams, Division Chief of the Research and Economic Programming Division (REPD), Mrs. Sharon Miller-Betty, the Deputy Division Chief

¹ The Monetary Policy Committee is referenced as the "MPC" and the "Committee" in these minutes.

² In attendance at the meeting on 17 May 2021 only.

³ In attendance at the meeting on 17 May 2021 only.

⁴ Bank of Jamaica is referenced as "BOJ" and the "Bank" in these minutes.

of REPD and Ms. Tanisha Ennis, Executive Coordinator to the Governor. Mrs. Karelle Tyrell, who was the Head of the Monetary Policy Communications Unit in REPD would attend the MPC Decision/Communication Meetings.

2.0 Governance Arrangements

2.1 Committee Composition

- 2.1.1 The Chairman advised the Committee that the Bank's Board of Directors at its meeting on 28 April 2021, acknowledged that Dr. Wayne Robinson, Senior Deputy Governor, being the senior executive of the Bank responsible monetary policy, would sit as a member of the MPC pursuant to section 34FB(3)(b) of the Bank of Jamaica Act as amended by the Bank of Jamaica (Amendment) Act, 2020. In addition, Deputy Governor Robert Stennett was appointed to the MPC by the Board at its meeting of 28 April 2021 pursuant to section 34FB(3)(c) of the Bank of Jamaica Act (also referred to as "the Act").

2.2 Quorum Requirements

- 2.2.1 It was noted that under section 34FB(15) of the Act, the Committee is authorised to regulate its own proceedings. Pursuant to this provision, the Committee Secretary proposed that the quorum for meetings of the Monetary Policy Committee should be three members, at least one of whom should be a non-executive, appointed pursuant to section 34FB(4) of the Bank of Jamaica Act.
- 2.2.2 The following resolution was approved on a motion moved by the Chairman and seconded by Mr. Marston:

RESOLVED THAT:

WHEREAS

- (1) The Bank of Jamaica Act (also referred to as "the Act") provides for the establishment of a Monetary Policy Committee ("the Committee") of Bank of Jamaica.
- (2) The Committee comprises five members, three ex-officio members and two appointed members.
- (3) The ex-officio members are:
 - the Governor
 - the senior executive of the Bank with responsibility for monetary policy and
 - a senior executive of the Bank appointed by the Board.
- (4) The two appointed members are non-executives who are appointed by the Governor General in Council pursuant to section 34FB(4) of the Act.
- (5) It is provided by section 34FB(15) of the Act that the Committee may regulate its own proceedings, subject to the provisions of the Act.

THE FOLLOWING IS HEREBY APPROVED:

The quorum for meetings of the Monetary Policy Committee shall be three (3) members at least one of whom shall be a member appointed pursuant to section 34FB(4) of the Act.

2.2.3 The resolution was **approved** by unanimous vote.

2.3 Adoption of Guidelines for Summary of Decisions and Minutes

2.3.1 Deputy Governor Chin Quee Akin presented the protocols for preparing and publishing summary of decisions and minutes of MPC meetings. Under section 34FG(4) of the Bank of Jamaica Act, the Committee is required to publish a summary of decisions on the Bank's website by the close of business on the day following the second MPC meeting. The summary of decisions should clearly state the monetary policy decision, reflect the consensus view and highlight the main factor(s) guiding the policy decision.

2.3.2 In addition, the Committee is required to publish on the Bank's website the minutes of its meeting within four weeks after the meeting. Generally, the minutes should provide more detail on the range of views expressed at the meeting leading up to the policy decision and should present an accurate record of the policy decision.

2.3.3 The proposed guidelines were **approved** by the Committee.

2.4 Form and Frequency of Reports to the Board

2.4.1 Under section 6(1A) of the Bank of Jamaica Act, the Board is tasked with an oversight role for the Bank's statutory committees. The Board at its last meeting indicated its expectations with regard to reports from the statutory committees. Deputy Governor Chin Quee Akin presented to the meeting an outline of the requirements for the form and frequency of reports to the Board. As a result, the Monetary Policy Committee would be required to report to the Board twice per year, during the months of January and June. The report should include: (i) number of meetings held; (ii) meeting attendance; (iii) overview of matters discussed and decisions made over the reporting period; (iv) communications made to the public over the reporting period; and (v) other matters that may be applicable to the Committee.

2.4.2 The Committee **endorsed** the form and frequency of the reports to the Board as outlined in the presentation to the meeting.

2.5 Form and timing of Monetary Policy Statements to the Minister

2.5.1 Deputy Governor Stennett proposed the form and frequency of Monetary Policy Statements to the Minister. It was noted that under section 34FG(1) to (3) of the Bank of Jamaica Act, the report should be issued at least every six months and should outline Bank of Jamaica's performance with regard to monetary policy and achievements in relation to the inflation target. The statements will be submitted to the Minister of Finance and the Public Service who, upon receipt, is to table the same in the House of Representatives following which it will be referred to the Standing Finance

Committee of the House of Representatives. The Governor as the Chairman of the MPC may be required to attend to address any questions.

2.5.2 The proposal was for the reports to the Minister to be delivered during February and August of each year. The February submission will include a summary statement, which will highlight the economic developments over the September and December quarters of the previous year, the most recent outlook and risks, and will be accompanied by the MPC's Quarterly Monetary Policy Reports (QMPRs) published in February and November (of the previous year). Similarly, the August submission will include the summary statement, which will cover the previous six months (the March and June quarters of the same year), and will be appended by the QMPRs published in May and August.

2.5.3 The proposal for the form and frequency of the Monetary Policy Statements to the Minister was unanimously **approved** by the Committee.

2.6 Review of the Governance Index for the MPC

2.6.1 Deputy Governor Chin Quee Akin presented the Governance Index for the MPC which represented an internal tool that would be used to measure the level of compliance with the statutory requirements, overall transparency and accountability with regards to the Committee.

2.6.2 The document was presented for information and was noted.

3.0 MPC Operating Framework

3.1 Deputy Governor Stennett invited the Committee to comment on and approve the document entitled "BOJ's Inflation Targeting Framework" for use as the MPC's operating framework. The document outlined, *inter-alia*, the procedures for setting and reporting on misses of the inflation target, the decision-making process of the Committee and the communication instruments and protocols of the MPC.

3.2 As provided in the Framework document, it was agreed that Committee members should disclose all requests for public engagements to the Chairman of the Committee even if the topic of discussion was unrelated to the operations of the Bank or the member's involvement in the MPC. If the request involved the publication of any written material and/or public speaking engagement related to the Bank's monetary policy and operations, Committee members should notify the Chairman of the Committee at least two days in advance of the event and the relevant documents should also be presented. In addition, the Committee agreed that there should be no public commentary related to the BOJ's monetary policy during the week leading up to a monetary policy announcement.

3.3 As an additional matter it was noted that a review of the Monetary Policy Communication Strategy was in progress to ensure consistency with the new BOJ (Amendment) Act 2020 and the draft would be presented to the Committee for feedback and approval once the review was completed.

3.4 The Committee **unanimously approved** the “BOJ’s Inflation Targeting Framework” subject to the changes made by Committee members.

4.0 Monetary Policy Matters

4.1 Presentation on Macroeconomic Projections, Risks and Policy Recommendations

4.1.1 The Monetary Policy Assessment Report, which contains the Bank staff’s macroeconomic analyses of current and prospective economic developments was tabled. Ms. Carey-Anne Williams, the Division Chief for the Research and Economic Programming Division, presented on recent developments, macroeconomic projections, risks and monetary policy recommendations. During the March 2021 quarter, the outturns for headline inflation were generally below forecasts. The outturn for annual inflation for the March 2021 quarter was 5.2 per cent which reflected an increase in processed food prices, rental and electricity rates. The outturns were below previous projection due mainly to lower agricultural prices as a result of a better than expected recovery in agricultural supplies. Relative to the previous forecast in February 2021, the projection for inflation was revised downwards over the near term (next two years) primarily reflecting lower agriculture prices.⁵ Over this period, a deceleration in agricultural food prices was expected to put downward price pressures on inflation, which was mainly influenced by an oversupply of produce due to favourable weather conditions. The impact of this was expected to be partially offset by a number of upward price pressures stemming from higher oil and grains (corn, wheat, soybean) prices. In particular, crude oil prices were expected to be higher (an average of US\$61.19 per barrel) relative to previous projection (an average of US\$52.87 per barrel) over the next two years. Average grains prices rose significantly in 2020, and even more sharply during the March 2021 quarter. Average grains prices were expected to be higher by 30.4 per cent compared to 24.7 per cent previously projected.

4.1.2 Higher inflation expectations were also expected to influence upward movements in inflation. The inflation expectations survey revealed that expectations had peaked during the pandemic to 7.2 per cent in December 2020 but was down to 6.5 per cent in March 2021. This outturn for inflation expectations was treated as an upside risk to inflation.

4.1.3 Core inflation, measured as headline inflation excluding the effects of the volatile components in the inflation basket such as energy and agricultural prices, reflected a sharp increase at March 2021. The increase in core inflation reflected higher housing rental prices in March 2021. On an annual basis, rental prices increased by approximately 10 per cent.

4.1.4 An improvement in the near-term outlook for domestic economic activity was another factor expected to support inflationary pressures, notwithstanding the lingering effects of the COVID-19

⁵ The Bank projected the inflation rate to average 4.8 per cent over the next two years.

pandemic. The more optimistic view was due to an expected faster recovery in selected industries and in external demand. Real GDP was expected to contract in the range 10.0 – 12.0 per cent for fiscal year (FY) 2020/21, broadly similar to the decline previously projected. However, for FY2021/22, growth was revised upwards in the range 5.0 – 8.0 per cent due to stronger growth in Mining & Quarrying, Construction and improved external demand which influenced stronger growth in Tourism and related services such as Transport, Storage and Communication. Over the medium term, growth was expected to converge to the previous projection.

- 4.1.5 Over the medium-term (the next five years), inflation was expected to remain in the midpoint of the Bank's target range and should remain generally in line with the previous forecast. The risks to domestic inflation were skewed to the upside.
- 4.1.6 Given the inflation outlook, monetary conditions were expected to remain accommodative over the near term. For FY2020/21, the fiscal deficit was projected at 3.1 per cent of GDP, lower compared to previous forecast, mainly driven by higher tax revenues as well as lower programme expenditures. For the period FY2022/23 to FY2024/25, the projected fiscal surplus was expected to be lower than the Bank's previous assessment in February 2021. In addition, the projection for the primary balance over this period was consistent with the Government of Jamaica's fiscal policy.
- 4.1.7 With regard to the global economy, the near-term outlook also improved relative to previous forecast, mainly influenced by stronger external demand.⁶ In particular, the outlook for growth in the US economy was supported by improved optimism/investor confidence around the deployment of the wide scale vaccination programme, expectations of further fiscal stimulus and accommodative monetary conditions.⁷ The improved outlook for external demand resulted in a positive US output gap over the September 2021 and June 2025 quarters, and US inflation was expected to rise over the near term but moderate over the medium term. In this context, the US Federal Reserve was anticipated to hold policy rate over the near term but increase rates over the medium term. The projection for international commodity prices was expected to be higher relative to the previous forecast over the next two years.
- 4.1.8 The current account deficit (CAD) as a percent of GDP was expected to trend upwards over the next two years (FY2021/22 to FY2022/23) to average 4.3 per cent of GDP, reflecting a deterioration compared to the projected outturn of 1.7 per cent of GDP for FY2020/21, due to higher imports. This mainly reflected higher prices for fuel and increased dividend outflows, partly offset by improved tourism inflows. Tourism inflows were revised marginally upwards over the near term due to improvements in tourism arrivals and were expected to recover gradually to pre-COVID-19 levels by FY2023/24. This was evident in a recent Jamaica Hotel and Tourism Association Booking Survey which signalled pent up demand by American travellers. Remittances were expected to fall

⁶ Global growth was projected to average 5.1 per cent over the next two years, above the previous projection of 4.7 per cent.

⁷ US economic growth was expected to rebound to 6.0 per cent and 3.3 per cent for 2021 and 2022, respectively, compared to a contraction of 3.5 per cent at 2020.

as travel restrictions eased. However, the risk to tourism was on the downside as local vaccinations remained low compared to some competitor jurisdictions.

- 4.1.9 For the period FY2023/24 to FY2025/26, gross international reserves were generally in line with the International Monetary Fund's (IMF) Assessing Reserve Adequacy metric. Over the near term, it was projected that reserves would remain above adequacy levels and would be relatively in line with the previous forecast. There was an upside risks to this forecast which stemmed from the impact of the proposed IMF's expansion of Special Drawing Rights of US\$500 billion. In 2009, Jamaica received approximately US\$300 million when a similar exercised was done.
- 4.1.10 The presentation concluded with highlighting the macroeconomic and policy implications of three economic scenarios covering (i) a potential upward shock to oil prices, (ii) a less depreciated exchange rate, and (iii) a different assumption for the Bank's policy rate, relative to that in the baseline forecast, over the next two years.

4.2 Discussion

- 4.2.1 One member enquired about the reason for the higher rental rates in March 2021. The Committee discussed the view that demand may have shifted from high-end residential housing units for rent to lower price point homes in the context of the impact of the COVID-19 pandemic on incomes. It was agreed, however, that a deeper investigation into the data was necessary to ascertain the main driver behind the increase.
- 4.2.2 The Committee discussed the cause of the recent increase in inflation expectations. It was noted that respondents typically cite past exchange rate movements as the primary cause of changes in expectations. The staff advised that whereas the current survey targets the business sector (price setters), it was noted that the Bank intended to review the inflation expectations survey.
- 4.2.3 The Committee discussed the monetary policy transmission mechanism and the question of whether or not the appropriate monetary policy tools were available to the Bank to manage inflation. It was noted that previous research work cited the transmission mechanism as being weak. In other words, the impact of changes in interest rates on domestic economic activity and inflation was relatively small when compared with other countries. Given the excess and concentrated liquidity in the domestic financial markets and the limited financial assets available for investors domestically, the Bank's ability to manage liquidity and meet its inflation target could be hampered. One view was that there needs to be increased focus on reforms supporting increased intermediation and an active communication campaign in order to strengthen the macroeconomic response to the Bank's monetary policy signals.
- 4.2.4 It was also noted that there could be some inflationary pressures in the US and the US financial market could start responding to the higher inflation expectations. As a result, the US Federal Reserve could start increasing interest rates faster than envisaged in the Bank's baseline forecast.

However, the Committee noted that there was no immediate concern and it would continue to monitor the situation closely.

4.2.5 The discussions also highlighted the significant growth observed in the Construction sector and the question as to whether or not this growth was sustainable over the near term. The Committee hypothesized that a portion of this growth may be related to the flow of remittances into the Construction sector as well as non-resident Jamaicans investing in the real estate market in Jamaica. The Committee asked that further research be undertaken to identify the main driver supporting the growth in the Construction sector.

4.2.6 Following the discussions, the meeting ended on 14 May 2021 at 11:49 a.m.

THE COMMITTEE RECONVENED ON 17 MAY 2021 AT 9:00 A.M.:

5.0 Monetary Policy Decision

5.1 On 17 May 2021, the Committee accepted and adopted the macroeconomic projections and the assessment of risks presented by Bank staff.

5.2 Based on the foregoing discussion among the members on 14 May 2021, the Chairman invited the Committee to vote on the proposal that the policy interest rate be maintained at 0.50 per cent. The Committee **unanimously voted** in favour of the proposition. The Committee judged that existing monetary policy stance remained appropriate.

6.0 Summary of Decisions made at meeting (Monetary Policy Communication)

6.1 It was noted that under section 34FG(4) of the Bank of Jamaica Act, the Committee is required to publish on the Bank's website a summary of decisions made at its meetings. Following the monetary policy decision, the Committee discussed the following documents: (i) Summary of Monetary Policy Discussion and Decision, (ii) the Monetary Policy Press Release, and (iii) the Quarterly Monetary Policy Report for the January to March 2021 quarter.

6.2 The Committee **unanimously approved** (i) the Summary of Monetary Policy Discussion and Decision and for publication of the same on the Bank's website, (ii) the Monetary Policy Press Release for issue to the media and for publication on the Bank's website, and (iii) the Quarterly Monetary Policy Report for the January to March 2021 quarter, subject to changes which were agreed.

7.0 Any other Business

7.1 Based on the discussions that ensued over the two MPC meeting days, some members asked for a follow-up technical meeting to discuss in more detail the Bank's monetary policy operating framework.

7.2 The Committee also requested that the Bank's most recent research on exchange rate pass-through in Jamaica be shared with it.

8.0 Adjournment of the Meeting

8.1 There being no other business, the Chairman adjourned the meeting on 17 May 2021 at 10:09 a.m.

SUMMARY OF APPROVALS/DECISIONS

The table below summarises the decisions and approvals made by the Committee.

ITEM NO.	DESCRIPTION	APPROVALS/DECISIONS
1.	MPC Resolution-Quorum for Meetings	APPROVED- Meeting of 14 May 2021
2.	Summary of Decisions and Minutes Guidelines	APPROVED- Meeting of 14 May 2021
3.	Form and frequency of Monetary Policy Statements to the Minister	APPROVED Meeting of 14 May 2021
4.	BOJ Inflation Targeting Operating Framework Document	APPROVED- subject to amendments agreed on at meeting of 14 May 2021
5.	Agreement by MPC to hold Policy Interest Rate at 0.5%	APPROVED Meeting of 17 May 2021
6.	Summary of Monetary Policy Discussion and Decision-May 2021	APPROVED- subject to amendments agreed on at meeting of 17 May 2021
7.	Monetary Policy Press Release	APPROVED- Meeting of 17 May 2021
8.	Quarterly Monetary Policy Report – May 2021	APPROVED- subject to amendments agreed on at meeting of 17 May 2021