



BANK OF JAMAICA

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

ON

FRIDAY, 28 JUNE 2021 AND TUESDAY, 29 JUNE 2021

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Minutes of the Monetary Policy Committee ("MPC/the Committee") meetings held virtually on Monday, 28 June 2021 (Briefing Meeting) at 9:00 a.m. and continued on Tuesday, 29 June 2021 (Decision/Communication Meeting), at 9:00 a.m. via GoToMeeting.

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:

Mrs. Karen Chin Quee Akin	Deputy Governor/General Counsel
Ms. Carey-Anne Williams	Division Chief, REPD ¹
Mrs. Sharon Miller-Betty	Deputy Division Chief, REPD
Mrs. Karelle Tyrell ²	Head, Monetary Policy Communication Unit, REPD
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Ms. Shannon Spencer	Monetary Policy Committee Corporate Secretary

1.0 Call to Order and Apologies

1.1 On 28 June 2021, the Chairman called the meeting to order and welcomed all to the second meeting of the MPC. There were no apologies for absence.

2.0 Confirmation of the Minutes of the Previous Meeting

2.1 The minutes of the meeting held on 04 June 2021 were confirmed by Mr. David Marston and seconded by Senior Deputy Governor Wayne Robinson.

¹ The Bank's Research and Economic Programming Division.

² In attendance at the meeting on 29 June 2021 only.

3.0 Matters Arising

3.1 The investigation into the increase in rental prices & drivers of growth in the Construction sector

3.1.1 In the context of a notable increase in housing rental prices in March 2021, the Committee had requested an investigation into the rental housing market. The Committee had also enquired about the main drivers of growth in the Construction sector.

3.1.2 Ms. Carey-Anne Williams, Division Chief for the Research and Economic Programming Division, noted that the existing data on the rental housing market and Construction sector was inadequate to conduct the requested analyses. As a result, Bank of Jamaica ("BOJ/the Bank") staff engaged with various public and private agencies that potentially collected and stored data on the sector to construct a comprehensive dataset. This engagement process is expected to be completed by end-July 2021, which will facilitate the provision of a report to the MPC in the September 2021 meeting.

3.2 Assessment on the exchange rate pass-through

3.2.1 The Committee had requested an update on the pass-through of changes in the exchange rate to domestic prices. It was noted that a paper that estimates the pass-through of exchange rate changes to consumer prices has been prepared and will be delivered to the MPC at the next scheduled meeting in August 2021.

3.3 Technical Session on BOJ's Monetary Policy Framework

3.3.1 On 21 June 2021, the appointed Committee members were briefed on the Bank's monetary policy transmission mechanism. The Committee requested a follow-up meeting to discuss additional matters related to the Central Bank's monetary policy transmission mechanism.

4.0 Monetary Policy Matters

4.1 Risk Assessment for Macroeconomic Projections and Monetary Policy Recommendations

4.1.1 The Bank staff's assessment of risks to the May 2021 macroeconomic projections and monetary policy recommendations were presented by Mrs. Sharon Miller-Betty, Deputy Division Chief for REPD.

4.1.2 The forecast in May 2021 was for inflation to average 4.8 per cent over the next two years, marginally below the midpoint of the Bank's 5.0 per cent target. The main drivers of the inflation projection were stable inflation expectations, accommodative monetary conditions and higher imported inflation (principally

through a temporary shock to international grains and energy prices), along with an assumed trajectory for domestic agricultural food inflation.

- 4.1.3 Inflation had been projected to fall towards the lower bound of the 4 – 6 per cent forecast range at April 2021 then increase towards the upper bound of the forecast range in the final quarter of fiscal year (FY) 2021/22. Inflation would subsequently decelerate to slightly below the midpoint of the forecast range at end-March 2023. Agricultural prices were expected to decline in the first four months following April 2021 but were expected to rise thereafter. Energy prices were expected to drive inflation upwards as both liquefied natural gas (LNG) and the West Texas Intermediate (WTI) crude oil prices increased. In this context, oil prices were projected to average US\$61.19 per barrel for FY2021/22, which reflected an increase of 44.5 per cent relative to FY2020/21. Subsequently, oil prices were expected to fall to US\$58.75 per barrel in FY2022/23. International grains prices were also projected to remain elevated.
- 4.1.4 Recent developments suggest that average inflation over the next year is likely to be revised upwards. The inflation outturn for April 2021 was 3.8 per cent, below the lower bound of the inflation target. This outturn was primarily due to (i) continued weak domestic demand conditions, despite signs of recovery from the impact of the COVID-19 pandemic, (ii) a strong recovery in the agricultural food supply, and (iii) a transient reduction in energy prices in April 2021. The BOJ's missed inflation target requires a letter to be sent to the Minister of Finance and Public Service, as set out in section 34FF(5) to (7) of the Bank of Jamaica Act. Notwithstanding the missed target in April, inflation moved to the midpoint of the target (5.0 per cent) in May 2021, higher relative to projection.
- 4.1.5 Beyond May 2021, upward pressures were likely to emanate from the impact on processed food and energy & transport prices of higher than anticipated international commodity prices (grains and energy). Energy (oil and LNG) prices continued to trend above projections. Higher WTI crude oil prices stemmed from higher demand as well as supply disruptions. The higher demand reflected a faster pace of vaccine deployment, especially in the US, and an easing in COVID-19 containment measures in some parts of the world. However, the Organization of the Petroleum Exporting Countries (OPEC) was expected to ease supply restrictions. Additionally, the possible return of Iranian oil and increased supply from US shale production could weigh on oil prices. These developments suggested that, while oil prices were likely to be revised upwards, they were still expected to fall in the September 2021 quarter.

- 4.1.6 Grains prices (soybean, corn and wheat) were above projections due to (i) unfavourable weather conditions, (ii) higher oil/production costs, and (iii) stronger demand for animal feed from China. It was anticipated that grains prices would decline over the near-term due to an increase in global supply and slower demand growth in China.
- 4.1.7 There could also be increases in regulated prices, while domestic weather conditions could be worse than anticipated, putting upward pressure on prices.
- 4.1.8 The Bank had projected that a recovery in the range of 5.0 – 8.0 per cent in the economy for FY2021/22 would largely reflect a rebound in tourism, related services and an improved outlook for the Mining, Construction and Agriculture sectors.
- 4.1.9 Regarding the risks to the projections for economic growth, it was noted that Jamaica's real GDP growth was likely to be revised upwards. Higher demand could be driven by higher than projected tourist arrivals and remittances. Recent information from private sector stakeholders signalled an increase in the projected hotel occupancy rate from June 2021 to March 2022. Moreover, there appeared to be a faster than expected normalization in the average length of stay. Remittances for the March 2021 quarter were above projections. Also, weekly indicative remittance data suggested that inflows for April and May continued to perform strongly.
- 4.1.10 The upside risk to domestic economic activity was influenced by an improved prospect for the US economy. US real GDP growth had been expected to average 3.7 per cent over the next two years in the context of the deployment of COVID-19 vaccines and the implementation of fiscal stimulus measures.
- 4.1.11 US GDP growth was likely to be revised up at the next forecast cycle due to faster than expected vaccine distribution, which would allow for further lifting of restrictions on economic activity and continued fiscal and monetary support. It had been expected that the US economy would grow by 4.7 per cent for the March 2021 quarter. However, the outturn was more substantial than expected (6.4 per cent). Growth for China, the Euro Area, UK and Canada also performed better relative to forecast.
- 4.1.12 Concerning downside risks, global growth could be weaker relative to the previous projection if there were increases in virus infections, including new variants, leading to lockdowns.

- 4.1.13 It was noted that the improvement in the global economy led to higher than expected trading partners' inflation. In particular, recent outturns for US inflation was generally above 4.0 per cent, while the Staff had projected a rate of about 3.5 per cent to 3.8 per cent over the September 2021 quarter. Trading partners' exchange rate also appreciated against the US dollar, albeit stronger than expected.
- 4.1.14 Improvements in the real sector of the economy and higher commodity prices were likely to be reflected in the current account. The current account deficit for FY2021/22 had been projected to rise to 4.5 per cent of GDP and then to decline gradually thereafter to an average of 1.5 per cent of GDP by FY2025/26.
- 4.1.15 Imports were likely to be revised upwards, given new investments, higher occupancy rates and commodity prices. The outturn for the goods balance for January 2021 was better than expected due to lower imports and higher exports.
- 4.1.16 It had been projected that, for FY2021/22, net international reserves (NIR) would fall. It was highlighted that reserves, though falling, were expected to remain above the levels considered adequate through to FY2025/26. There was an upside risk to reserves from the International Monetary Fund's proposed Special Drawing Rights (SDR) allocation of US\$650.0 billion to member countries.
- 4.1.17 Short term interest rates generally remained within the Bank's interest rate corridor. For the June 2021 quarter-to-date, monetary conditions were more accommodative relative to the previous quarter.
- 4.1.18 Based on the foregoing, Bank staff recommended that the Bank maintain the policy rate at 0.5 per cent.

4.2 Discussion

- 4.2.1 Following the presentation, the Committee members discussed the likelihood of the inflation target being breached over the next 12 months. The Committee noted that the investigation results into the real estate and construction market were critical to it taking a view about further rental price pressures. The Committee noted that the high-frequency data presented by the Staff indicated that grains prices had peaked, therefore, further significant increases in processed food prices were not likely. The Committee also noted the potential for some adjustments in regulated prices, which could result in inflation approaching, or temporarily breaching, the upper limit of the Bank's target range.

4.2.2 The Committee highlighted the risks to inflation expectations from the shocks to commodity and freight prices. The Committee noted the importance of an effective communication campaign about the future path of inflation, particularly in light of its view that these inflationary pressures would be temporary and would eventually dissipate.

4.2.3 The Committee briefly discussed the Bank's challenges in sourcing timely data on imports. The Committee urged the Staff to supplement the Bank's analysis with high-frequency indicators and present the findings at future meetings.

4.2.4 Following the discussions, the meeting ended on 28 June 2021 at 11:07 a.m.

THE COMMITTEE RECONVENED ON 29 June 2021 AT 9:00 a.m.:

5.0 Monetary Policy Decision

5.1 On 29 June 2021, the Committee accepted and adopted the assessment of risks presented by Bank staff.

5.2 Based on the preceding discussion on 28 June 2021, the Chairman invited the Committee to vote on the proposal that the policy interest rate be maintained at 0.5 per cent. The Committee **unanimously voted** in favour of the proposition. The Committee, based on its view that inflationary pressures would be temporary, judged that the existing monetary policy stance remained appropriate.

6.0 Summary of Decisions made at the 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 and (ii) the Monetary Policy Press Release.

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 and (ii) the Monetary Policy Press Release for issue to the media and for publication on the Bank's website, subject to changes which were agreed.

6.3 Concerning section 34FF(5) to (7) of the Bank of Jamaica Act, which addresses the issues related to the Bank missing the inflation target, the Committee also

reviewed the report to the Minister of Finance and Public Service on the breach of the inflation target in April 2021.

6.4 The documents, as revised, were **approved**.

7.0 Any other Business

7.1 There was no other business raised for discussion.

8.0 Adjournment of the Meeting

8.1 There being no other business, the Chairman adjourned the meeting on 29 June 2021 at 10:37 a.m.

SUMMARY OF APPROVALS/DECISIONS

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

ITEM NO.	DESCRIPTION	APPROVALS/DECISIONS
1.	Agreement by MPC to hold Policy Interest Rate at 0.5%	APPROVED-Meeting of 29 June 2021
2.	Summary of Monetary Policy Discussion and Decision-June 2021	APPROVED-subject to amendments agreed on at the meeting of 29 June 2021
3.	Monetary Policy Press Release	APPROVED-subject to amendments agreed on at the meeting of 29 June 2021
4.	Report to Minister of Finance and Public Service on the Missed Inflation Target Report	APPROVED-subject to amendments agreed on at the meeting of 29 June 2021