



BANK OF JAMAICA

**MINUTES OF THE
MONETARY POLICY COMMITTEE MEETINGS**

HELD VIRTUALLY

ON

TUESDAY, 17 AUGUST 2021 AND WEDNESDAY, 18 AUGUST 2021

Table of Contents

| | |
|------------------------------------------------------------------------------------|----|
| ATTENDANCE | 3 |
| 1.0 CALL TO ORDER AND APOLOGIES | 3 |
| 2.0 CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING | 3 |
| 3.0 MATTERS ARISING | 4 |
| 3.1 ASSESSMENT OF THE EXCHANGE RATE PASS-THROUGH | 4 |
| 4.0 MONETARY POLICY MATTERS | 4 |
| 4.1 MACROECONOMIC PROJECTIONS, RISKS AND MONETARY POLICY RECOMMENDATIONS | 4 |
| 4.2 DISCUSSION | 7 |
| 5.0 MONETARY POLICY DECISION | 8 |
| 6.0 SUMMARY OF DECISIONS MADE AT THE MEETING (MONETARY POLICY COMMUNICATION) | 9 |
| 7.0 ANY OTHER BUSINESS | 9 |
| 8.0 ADJOURNMENT OF THE MEETING | 10 |
| SUMMARY OF APPROVALS/DECISIONS | 10 |

Minutes of the Monetary Policy Committee ("MPC/the Committee") meetings held virtually on Tuesday, 17 August 2021 (Briefing Meeting) at 9:00 a.m. and Wednesday, 18 August 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:

| | |
|---------------------------------|-----------------------------------------------|
| Ms. Carey-Anne Williams | Division Chief, REPD ¹ |
| Mrs. Sharon Miller-Betty | Deputy Division Chief, REPD |
| Mr. Noel Greenland ² | Executive Director, Communications |
| Ms. Arlene Tomlinson | Senior Director, Board/Management Secretariat |
| 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 17 August 2021, the Chairman called the meeting to order and welcomed all to the third 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 20 July 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 18 August 2021 only.

3.0 Matters Arising

3.1 Assessment of the exchange rate pass-through

- 3.1.1 Ms. Carey-Anne Williams, the Division Chief for the Research and Economic Programming Division, presented the results of an assessment of the exchange rate pass-through (ERPT) to inflation in Jamaica. This presentation was based on a request by the Committee, against the background that Jamaica is a small open economy and the exchange rate continues to be a key driver of inflation.
- 3.1.2 A Threshold Vector Autoregressive Exogenous model was used to quantify the pass-through of the exchange rate to inflation under different conditions or states defined by the pace of depreciation in the exchange rate. Specifically, the study simultaneously determined "high" versus "low" rates of depreciation in the exchange rate as well as the pass-through to various measures of inflation (and to inflation for selected divisions and sub-divisions of the CPI) that occurred in these two states.
- 3.1.3 The results indicated that the threshold values that separated periods of high depreciation from low depreciation were annual exchange rate depreciations of 4.2 per cent and 7.4 per cent, respectively. The thresholds were also different for the selected divisions and sub-divisions of the CPI. Additionally, asymmetric/non-linear pass-through of the exchange rate to inflation existed in Jamaica. The empirical evidence suggested that in periods of "high" depreciation (i.e. 7.4 per cent and above), the ERPT to headline inflation over a year was 70 per cent while, for periods of "low" depreciation, it was notably lower at 40 per cent. This was in contrast to the 1990s when the pass-through was 100 per cent within a year. Complete pass-through occurred much quicker (a little over a year) in the high depreciation regime, relative to the low depreciation regime.
- 3.1.4 The MPC noted that the results of this study were relevant for its deliberation as it confirmed the view that the ERPT is likely to have accelerated in FY2020/21, given the pace of depreciation in the exchange rate during the year.

4.0 Monetary Policy Matters

4.1 Macroeconomic Projections, Risks and Monetary 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. Williams highlighted the most recent developments, macroeconomic projections, risks and monetary policy recommendations.

- 4.1.2 At the meeting, the most recent outturn for headline inflation indicated that the annual change in the CPI at July 2021 was 5.3 per cent, which was higher than the previous forecast. This outturn was driven by significant increases in selected components of the CPI basket such as meals consumed away from home, processed foods, agricultural prices, sewage, electricity and water rates, and petrol prices.
- 4.1.3 Over the near term (next two years), the forecast for domestic headline inflation was higher than the projection in May 2021. More specifically, domestic headline inflation was projected to average 5.5 per cent to 6.5 per cent over the period, above the average inflation rate of 5.0 per cent over the past two years and an upward revision relative to the previous forecast. For the first year in particular, annualized consumer price inflation will evolve in the range of 6.0 per cent to 7.0 per cent, representing almost continuous breaches of the upper limit of the target.
- 4.1.4 Several factors influenced this revised outlook for inflation. One factor was the lagged impact of higher imported inflation, stemming from increases in freight, grains, and oil prices. Average grains prices (corn, soy, wheat) were revised upwards, except for wheat prices. However, the average price for grains was anticipated to fall, stemming from increased global supplies and a slow down in demand from China. The prices for crude oil and liquified natural gas (LNG) were higher than projected but expected to fall over the next two years.
- 4.1.5 Temporary increases in inflation expectations were also expected to influence the upward movements in inflation. The Bank's most recent survey indicated that inflation expectations were above the Bank's inflation target range, primarily driven by the commodity price shock. However, over the medium term (the next three to five years), inflation expectations were assumed to converge with the target and remain stable.
- 4.1.6 One-off adjustments to regulated prices (utilities and taxi fares) contributed to the higher inflation outlook. It was highlighted that the government had granted private transport operators (buses and taxis) a 15 per cent fare increase, effective 16 August 2021.
- 4.1.7 Over the near term, the revised inflation outlook was also supported by the continued recovery in domestic demand. Over the next two years, real GDP growth was expected to be slightly higher relative to the assessment in May 2021. GDP growth for fiscal year (FY) 2021/22 was projected within the range of 7.0 per

cent to 10.0 per cent and was expected to moderate within the range of 2.0 per cent to 4.0 per cent for FY2022/23. The recovery in domestic demand was primarily driven by external demand (reflected in a faster recovery in selected sectors such as Hotels & Restaurants, Other Services, Transport, Agriculture and Construction) and the lagged impact of accommodative monetary policy conditions.

- 4.1.8 In response to the Committee's request for staff to present high-frequency indicators to support the Bank's projection for real economic activity, the presentation highlighted some high-frequency leading indicators of GDP growth for the June 2021 quarter. These indicators included general consumption tax (GCT), electricity consumption, visitor arrivals and remittances. The indicators suggested that the economy in the June 2021 quarter performed strongly.
- 4.1.9 The recent significant increases in international commodity prices were anticipated to cause inflation in Jamaica to breach the upper limit of the Bank's target range from as early as the September 2021 quarter and breaches could occur up to June 2022.
- 4.1.10 Over the medium term (the next three to five years), inflation was expected to move towards the midpoint of the Bank's target range, conditional on a gradual tightening of monetary conditions. The risks to the inflation forecast were skewed to the upside (which means that inflation could track above the forecast).
- 4.1.11 Against the background of the revised inflation forecast, monetary conditions were expected to be more accommodative relative to previous forecast.
- 4.1.12 Projected global growth was relatively unchanged compared to the previous forecast. External demand was projected to remain positive over the forecast horizon, driven by vaccine rollouts and additional fiscal stimuli. The US output gap was, however, expected to be slightly lower relative to the previous forecast. US inflation was projected to be high over the near term before converging to the monetary authority's target of 2.0 per cent over the medium term. The US Federal Reserve was expected to taper monthly asset purchases starting end-2021 and raise interest rates by 50 basis points (bps) and 75 bps in 2023 and 2024, respectively.
- 4.1.13 Concerning the domestic balance of payments, imports were expected to increase over the near term, influenced by the shock to international commodity prices. Over the medium term, the current account deficit (CAD) of the balance

of payments was projected to be lower (better) by an average of US\$129.3 million per year between FY2020/21 and FY2025/26, mainly due to improvements in the outlook for tourism and remittances. More robust than anticipated stop-over arrivals influenced the improved outlook for tourism inflows during the June 2021 quarter.

4.1.14 The outlook for gross foreign assets also improved, mainly underpinned by the International Monetary Fund's (IMF) Special Drawing Rights (SDR) allocation of US\$520.0 million.

4.1.15 The presentation concluded by highlighting the macroeconomic implications of five scenarios, which included: (i) Bank of Jamaica (BOJ) holding the policy rate at its current level for one quarter before adjusting it upwards; (ii) a simulation of the optimal path for interest rates over the next two years; (iii) a simulation of a 150 bps shock to the Bank's policy rate in the September 2021 quarter; (iv) a simulation of the impact of higher inflation expectations over the next two years; and (v) holding the policy rate at its current level for six quarters before adjusting it upwards.

4.2 Discussion

4.2.1 Following the presentation, Committee members discussed the expected breach of the inflation target (inflation above the upper limit of BOJ's target range), which could occur during the September 2021 quarter. The MPC stressed the importance of taking a proactive approach in communicating to the public this view and the Bank's intended policy action to curb inflation and inflation expectations and safeguard long-run growth.

4.2.2 The issue of unanchored inflation expectations also came to the fore. It was noted that the Bank was concerned that the public's awareness of the inflation target was weak. In addressing this issue, the Bank intended to engage in a targeted communication campaign that would help to improve the public's understanding of the target. Notwithstanding the public's low awareness of the inflation target, there was a view that the public was still able to form a view about the current and future level of inflation and that these expectations guided their price-setting decisions.

4.2.3 The Committee then discussed the policy transmission process and the impact of higher interest rates on the recovery of the Jamaican economy. The Bank's research on the credit channel had indicated that, given the weakness of this

channel, the Bank would have to apply sharp increases to the policy rate to have a significant impact on credit growth.

- 4.2.4 The Committee also discussed the implications of introducing Central Bank Digital Currency (CBDC) on inflation. It was noted that, over the short term, the CBDC would not impact prices in Jamaica. However, it was expected to affect Jamaica's potential output over the long term through its impact on total factor productivity (improved efficiency). The CBDC was also expected to encourage financial inclusion, which could strengthen the monetary policy transmission.
- 4.2.5 The discussions also focused on the possible implications of the path of foreign reserve accumulation for the creation of Jamaican dollar liquidity in the financial system. It was noted that gross reserves were currently above the IMF's Assessing Reserve Adequacy metric and that reserve accumulation implies an injection of liquidity in the financial system and the attendant demand pressures in the financial markets and the economy. It was noted that the Bank was examining this issue, particularly in the context of the pending SDR allocation, and that it would discuss it in more detail at a future MPC meeting.
- 4.2.6 Following the discussions, the meeting ended on 17 August 2021 at 11:19 a.m.

THE COMMITTEE RECONVENED ON 18 August 2021 AT 9:00 a.m.:

5.0 Monetary Policy Decision

- 5.1 On 18 August 2021, the Committee accepted and adopted the staff's macroeconomic projections, assessment of risks and policy recommendations.
- 5.2 Based on the preceding discussion on 17 August 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 MPC noted that the recent significant increases in international commodity prices would cause inflation in Jamaica to breach the upper limit of the Bank's target range from as early as the September 2021 quarter and that there was a risk that inflation expectations would not moderate as assumed in the staff projection. Based on this view, the Committee agreed to consider tightening monetary policy at its next meeting in September 2021. Additionally, the MPC decided to implement other measures to moderate inflation expectations, including the containment of Jamaican dollar liquidity expansion.

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

6.1 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; (iii) the Quarterly Monetary Policy Report for the April to June 2021 quarter; and (iv) the Monetary Policy Statement to the Minister of Finance and Public Service and the Standing Finance Committee (SFC).

6.2 The Committee **unanimously approved, subject to agreed changes**, (i) the Summary of Monetary Policy Discussion and Decision and its publication on the Bank's website, (ii) the Monetary Policy Press Release for distribution to the media and its publication on the Bank's website, and (iii) the Quarterly Monetary Policy Report for the April to June 2021 quarter.

6.3 Section 34FG of the Bank of Jamaica Act requires the MPC to prepare statements on the Bank's performance on monetary policy and the achievement of the inflation target, which are to be submitted to the Minister of Finance and Public Service every six months, at minimum, or as may be directed by Parliament. In keeping with this provision, the Minister, upon receipt of the Monetary Policy Statement, must table a copy in the House of Representatives.

6.4 Accordingly, the Monetary Policy Statement to the Minister and the SFC was **approved**, subject to agreed changes.

6.5 Mr. Noel Greenland, Executive Director of Communications, presented to the Committee a series of initiatives under the Bank of Jamaica's Inflation Awareness Campaign. The campaign's primary objective is to engage with targeted stakeholders to improve their understanding of inflation and the Bank's management of monetary policy. The last public opinion survey by the Bank, while positive, revealed that the awareness of BOJ's advertising and public relations content remained low. The initiatives under the campaign would take various forms such as in-person background briefings, virtual town hall meetings, op-ed articles, influencer videos, animated videos, educational jingles, seminars on economics, etc.

6.6 The presentation was made for information and was noted.

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 18 August 2021 at 11:06 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 0.50% | APPROVED-Meeting of 18 August 2021 |
| 2. | Summary of Monetary Policy Discussion and Decision-August 2021 | APPROVED-subject to amendments agreed on at the meeting of 18 August 2021 |
| 3. | Monetary Policy Press Release | APPROVED-subject to amendments agreed on at the meeting of 18 August 2021 |
| 4. | Quarterly Monetary Policy Report - August 2021 | APPROVED-subject to amendments agreed on at the meeting of 18 August 2021 |
| 5. | Monetary Policy Statement to Minister and SFC-August 2021 | APPROVED-subject to amendments agreed on at the meeting of 18 August 2021 |