



**Monetary Policy Press Statement:  
Press Conference**

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Bank of Jamaica  
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## **Introduction**

Good morning, ladies and gentlemen and welcome to this special press conference.

As you may be aware, the MPC met on Tuesday and Wednesday of this week and decided by a unanimous vote to increase the policy interest rate by 100 basis points to 1.50 per cent per annum. The Committee also signalled its intention to continue to reduce the level of monetary accommodation, or more simply put, continue increasing the policy rate, at subsequent policy meetings, subject to inflation and other macroeconomic data evolving as projected.

Accompanying this policy rate increase, the Committee decided to maintain other measures aimed at moderating inflation expectations, including the containment of Jamaican dollar liquidity expansion. Finally, the MPC reiterated that, while the Bank does not target any specific level of the exchange rate, Bank of Jamaica will continue to ensure that movements in the exchange rate do not threaten the inflation target of 4 to 6 per cent.

Our aim here today is to outline and explain the factors which led to the decisions taken by the MPC and the expected impact of these decisions.

It is important to remind you that Bank of Jamaica has had an accommodative monetary policy posture for a number of years, progressively cutting interest rates to a low of 0.5% in August 2019. In support of economic growth and in the context where inflation generally remained within the Bank's target range, we have kept the policy rate at that historic low level since then. In addition, at the onset of COVID-19, the Bank injected significant liquidity (both Jamaican and US Dollars) into the system, amounting to approximately \$313 billion, or 16 per cent of GDP. We have consistently said in our communications that we will maintain this accommodative policy so long as there is no threat to inflation.

At yesterday's meeting, the MPC noted that inflation for August 2021 had breached the upper limit of the Bank's target range and that the risk of inflation continuing that trend over the next two years has intensified. The recent significant increases in international

commodity prices and shipping costs have had a higher than expected pass through to local prices and have contributed to further increases in inflation expectations. In addition, consumers are being faced with higher agricultural prices as a result of the passage of Tropical Storms Grace and Ida in August 2021, and which has also contributed to a worsening in inflation expectations. Importantly, when we exclude the effects of volatile prices, such as agriculture and energy, underlying or core inflation has been rising and is above the Bank's target.

The MPC is of the view that, if it does not take actions in order to limit the second-round effects of these increases in prices, then inflation expectations will rise further and will lead to even higher price adjustments, causing inflation to remain above the Bank's target range for a protracted period, lasting a year or more.

With this background, I will now speak in further detail to the latest inflation outturn as well as the Bank's latest monetary policy decisions.

## **Inflation Risks**

The upside risks to the inflation forecast over the next two years have intensified. The inflation rate for the 12 months leading up to August 2021, as released by the Statistical Institute of Jamaica, was 6.1 per cent, above the July outturn of 5.3 per cent and the upper limit of the Bank's target range. The acceleration in inflation primarily reflected the effects of higher prices for both processed and agricultural food, meals consumed away from home and transport services, which are all related to the weather and to the increases in international commodity prices. There were also higher prices for selected services such as education.

In the latest survey of inflation expectations, businesses indicated that their outlook for inflation 12 months ahead (ending July 2022) increased to 7.4 per cent, relative to the 7.0 per cent in the previous survey. There has been an upward trend in inflation expectations over the past two years and these expectations have been elevated, especially since the onset of the COVID-19 pandemic in Jamaica, placing them outside

of the upper limit of the Bank's target range. Without action, expectations are likely to become unanchored and will more seriously affect price setting decisions in the goods and labour market.

Finally, the recent passage of Tropical Storms Grace and Ida affected the island in August 2021 and reportedly had a negative impact on agricultural supplies, particularly vegetables. This shock to agricultural supplies has already started to affect prices, and adds an additional 1.0 percentage point (pp) to the inflation forecast, relative to what we had outlined to you in August 2021.

In the context of this updated assessment and what it implies for inflation expectations, the MPC's decisions are designed to ensure that inflation will gradually fall back within the Bank's inflation target of 4.0 to 6.0 per cent in the shortest possible time.

### **How will our Policy Actions Affect the Economy?**

As I indicated earlier, BOJ's suite of policy actions to reduce monetary accommodation includes the moderate one (1) percentage point increase in the policy rate, an intensified focus on ensuring that movements in the exchange rate do not threaten inflation and more active management of Jamaican dollar liquidity. BOJ also reserves the right to increase the policy rate further.

As we reduce the level of monetary accommodation in the system, market-based interest rates will rise. This rise will make the returns on Jamaican dollar assets more attractive relative to foreign currency assets and it will make saving in Jamaican dollars more attractive and borrowing in Jamaican dollars more expensive. In so doing, interest rate increases will temper the demand for foreign currency and hence moderate the pace of depreciation in the exchange rate; AND it will reduce demand in the economy generally and with it the ability of businesses to pass on price increases to consumers.

We are aware that there are concerns about the impact of this policy decision on growth in the economy. The suite of policy actions, beginning with a modest increase in the policy rate, have been calibrated to minimise the adverse impact on growth. Bank of Jamaica's assessment therefore is that, even with these actions and potential future

actions, GDP growth will still fall within the range of 7 to 10 per cent for FY2021/22 that I had presented to you in August 2021. Just yesterday, the Statistical Institute of Jamaica reported that the economy grew by 14.2 per cent for the June 2021 quarter, which was stronger than we expected.

While the decision to increase the policy rate may affect growth in the short run, the Bank and the MPC are concerned that, if we do nothing now and high inflation becomes entrenched, growth over the longer term will be adversely affected. Low, stable and predictable inflation is considered more important and more conducive to long run, sustainable GDP growth, wealth creation and the amelioration of poverty than persistent, high inflation.

### **Concluding Statement**

Ladies and gentlemen, Bank of Jamaica is committed to fulfilling its mandate by ensuring that a growth enabling macroeconomic environment is in place, characterised by inflation returning and remaining within our inflation target range of 4 to 6 per cent. The outlook for inflation over the next two years, while being initially affected by shocks, is also at risk from much higher inflation expectations and is underscored by the rise in core inflation. Bank of Jamaica's action yesterday to reduce monetary accommodation is aimed at addressing this issue and influencing a return of inflation to our target in the shortest time possible. We will continue to closely monitor the economic environment and are prepared to take further actions at the next MPC decision meeting in November 2021 in order to achieve our inflation objective.

Thank you and I will now take questions.