



BANK OF JAMAICA

**MINUTES OF THE
MONETARY POLICY COMMITTEE MEETINGS**

HELD VIRTUALLY

ON

WEDNESDAY, 16 FEBRUARY 2022 AND THURSDAY, 17 FEBRUARY 2022

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Minutes of the Monetary Policy Committee ("MPC/the Committee") meetings held virtually on Wednesday, 16 February 2022 (Briefing Meeting) at 9:00 a.m. and Thursday, 17 February 2022 (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
Mrs. Natalie Haynes	Deputy Governor
Mr. Taffi Bryson ²	Director, Market Operations and Analysis Department
Ms. Arlene Tomlinson	Senior Director, Board/Management Secretariat
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Mrs. Karelle Tyrell ³	Head, Monetary Policy Communication Unit, REPD
Ms. Shannon Spencer	Monetary Policy Committee Secretary

1.0 Call to Order and Apologies

1.1 The Chairman called the meeting to order and welcomed all to the first MPC Briefing meeting of 2022. 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 07 January 2022 were confirmed on a motion moved by Mr. David Marston and seconded by Dr. Nadine McCloud.

¹ The Bank's Research and Economic Programming Division.

² In attendance at the meeting on 16 February 2022 only.

³ In attendance at the meeting on 17 February 2022 only.

3.0 Matters Arising

- 3.1 The MPC was briefed on the status and timeline of a number of action items.
- 3.2 Ms. Carey-Anne Williams indicated that some of the action items would be directly addressed in the meeting. She noted that, in relation to the action item to expand the set of inflation expectations indicators, the Bank was actively pursuing two initiatives, updates on which would be provided in April and the second half of 2022. Interim reports on the findings related to the project on the construction sector and the rental market would also be provided at the March and May 2022 MPC meetings, respectively.

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. Carey-Anne Williams highlighted the most recent developments, macroeconomic projections, risks and monetary policy recommendations.
- 4.1.2 At January 2022, the annual inflation rate was 9.7 per cent, above the Bank's previous projection of 8.9 per cent and represented the sixth consecutive breach of the Bank's inflation target of 4.0 to 6.0 per cent since August 2021. The deviation primarily reflected higher service-related inflation. As a result of the missed inflation target, the MPC is required by law to write to the Minister of Finance and the Public Service (the Minister) to explain the reasons for the breach, the measures that will be implemented to steer inflation back to the target range and the short term outlook for inflation.
- 4.1.3 Over the next eight quarters (next two years), inflation is projected to average in the range of 6.0 to 7.0 per cent, which is higher than the previous forecast (5.5 to 6.5 per cent) and above the average inflation rate of 5.5 per cent over the past two years. The inflation forecast for the next two years assumes the continued lagged impact of higher international commodity and shipping prices, continued recovery in domestic demand, anticipated adjustment in the National Minimum Wage and seasonal agricultural price changes. The forecast also assumes some moderation in inflation expectations.
- 4.1.4 Over the ensuing 10 to 12 months, without further and stronger policy action, the Bank projected headline inflation to remain above the upper limit of the target range and peak in the range of 9.0 to 11.0 per cent. In this regard, inflation is expected to return towards the mid point of the target range by the latter part of

2022, conditional on the gradual reduction of monetary accommodation, a deceleration in imported inflation and the expected moderation in inflation expectations.

- 4.1.5 The latest survey data on businesses' inflation expectations in December 2021 showed that expectations one year ahead were elevated at 9.8 per cent, significantly above the Bank's inflation target and the previous survey. This view of future inflation was supported by a high-frequency model of inflation expectations that showed continued elevated expectations for the March 2022 quarter. The estimated model was based on the determinants of expectations, as identified by respondents in the survey. Updates of these determinants over the March 2022 quarter were used to generate out-of-sample estimates/forecasts of inflation expectations. These predictions were above the assumptions in the Bank's macroeconomic model, which envisaged that inflation expectations would fall over the next two years, consequent on the Bank's monetary policy actions.
- 4.1.6 Real GDP growth for fiscal year (FY) 2021/22 is projected in the range of 7.0 to 10.0 per cent and is forecasted to moderate within a range of 2.0 to 4.0 per cent for FY2022/23. The projections for GDP growth in FY2021/22 and FY2022/23 are below the previous forecast. This growth outlook primarily reflects weaker anticipated growth in Hotel & Restaurants, Other Services, Agriculture, Forestry & Fishing and Construction.
- 4.1.7 Leading indicators signalled that GDP for the December 2021 quarter grew at a slightly faster pace relative to the September 2021 quarter. The Bank projected real GDP growth for the December 2021 quarter in the range of 5.0 to 7.0 per cent. The forecast for the December 2021 quarter is underpinned by a rebound in several industries, particularly Tourism and its related industries (Transportation, Manufacture, Agriculture, Other Services).
- 4.1.8 In relation to the projections for commodity prices over the next two years, grains prices (corn, wheat, soybean) are revised upwards to an average of US\$373.42 per metric tonne, compared to the previous forecast of US\$330.41 per metric tonne, due to upward revisions to the projections for demand and input costs. Similarly, over the forecast period, projected fuel prices (crude oil and LNG prices) are more elevated compared to the previous projection. In particular, oil prices are projected to average US\$74.50 per barrel for the next eight quarters compared to an average of US\$66.09 per barrel in the previous projection.

- 4.1.9 Global economic growth over the next two years (March 2022 to December 2023) is projected to average 3.6 per cent, in line with the previous projection. The forecast for global growth assumes the withdrawal of fiscal and monetary support in a number of advanced economies and the impact of the lingering shortage of key production inputs. Real output growth in the US is, however, projected to be marginally above the previous forecast (2.0 per cent compared to 1.9 per cent). US inflation is also projected to be higher (an average of 4.8 per cent compared to the previous projection of 3.6 per cent) over the near term but is expected to converge to the US Federal Reserve's (Fed) 2.0 per cent inflation target over the medium term. The Fed is anticipated to begin increasing interest rates in March 2022 and is projected to increase rates by a cumulative 200 basis points (bps) in 2022 and 2023.
- 4.1.10 For FY2021/22, the current account of Jamaica's balance of payments is expected to improve to a surplus of 2.8 per cent of GDP from a deficit of 1.0 per cent of GDP for FY2020/21. This projection is mainly underpinned by increased travel-related inflows, higher remittance inflows and lower investment income outflows, partly offset by higher imports and transportation costs, the latter related to both the growth in imports and elevated freight charges. Over the next two years, the current account deficit (CAD) is projected to be lower compared to the previous forecast due to an improvement on the current transfers sub-account, partly offset by a deterioration in the merchandise trade balance. The outlook for the CAD over the medium term (FY2023/24 to FY2027/28) is slightly better at a projected average of 0.7 per cent of GDP, relative to the previous forecast of 1.1 per cent of GDP.
- 4.1.11 Reserves are anticipated to be lower than the previous forecast over the next two years but will remain adequate over the medium term.
- 4.1.12 The MPC was informed that some uncertainty around the inflation forecast remained but the risks to the forecast were assessed to be balanced (which implied that actual inflation would track in line with the forecast).
- 4.1.13 The MPC was presented with the results of three macroeconomic scenarios. One scenario simulated the impact of higher oil prices over the near term due to an escalation of geo-political tensions. The second scenario evaluated the effect of keeping the policy rate unchanged for one year. The last scenario simulated the impact of even higher inflation expectations over the near term relative to the baseline forecast.

4.1.14 It was highlighted that, influenced by adjustments in the Bank's policy rate, selected money market interest rates for the December 2021 quarter were higher compared to the previous quarter. However, interest rates offered by banks on new loans to medium and large businesses were below projection, which indicated a weak response to the Bank's policy rate adjustments. Similarly, the rise in deposit rates was weaker than the expected response. Moreover, survey data signalled that respondents expected a rise of only 0.23 percentage point (pp) in lending rates for the March 2022 quarter.

4.1.15 Given the foregoing assessment, the Bank's staff recommended that Bank of Jamaica take stronger policy actions to further reduce its level of monetary policy accommodation via a suite of measures, including those related to Jamaican dollar liquidity management and the foreign exchange (FX) market. Also, consistent with meeting its inflation target sustainably in the medium term, the staff recommended that the Committee signal its intent to guide real interest rates, which are negative, to more sustainable levels at subsequent policy meetings, subject to inflation, inflation expectations and other macroeconomic data evolving as projected.

4.2 Financial Market Update and Short-Term Outlook

4.2.1 Mr. Taffi Bryson presented on recent developments in the financial markets and provided a short-term outlook. He highlighted that liquidity conditions in January 2022 were tighter relative to December 2021.

4.2.2 Rates in the money market responded to the 50 bps increase in the Bank's policy rate in December 2021, with a larger than proportionate increase at the longer end of the yield curve. Subsequent to the increase in the policy rate in December 2021, rates on BOJ 30-day FR CDs declined marginally but Government of Jamaica's treasury bills (GOJ T-bills) 270-day and 180-day increased.

4.2.3 The foreign exchange market continued to exhibit two-way movement. For 2021, the weighted average selling rate (WASR) depreciated by 8.0 per cent (J\$12.4) and reflected an average monthly depreciation of 0.6 per cent. For January 2022, the WASR depreciated (point to point) by 1.3 per cent relative to a depreciation of 4.7 per cent in January 2021. The depreciation observed in January 2022 was attributed to seasonal demand pressures and portfolio-related activity. Anecdotal information indicated that there was a front-loading of demand due to supply chain delays. The BOJ, to maintain orderly behaviour in the market, injected liquidity into the market amounting to US\$185.7 million through the BFXIT intervention window in January.

4.2.4 Foreign exchange forward market activity has increased in value since January 2021. This market continued to mainly reflect activity in the three main currency pairs (USD/JMD, GBP/USD and CAD/USD). The USD/JMD currency pair continued to exhibit the largest amount of activity compared to the remaining two currency pairs. The sell contracts of the forward market reflected larger premiums relative to the buy contracts, which appeared to stem from Dealers' efforts to hedge against depreciation of the Jamaican dollar.

4.2.5 In terms of the near term outlook, the Jamaican dollar money market was expected to reflect continued efforts by some institutions to position for near term Jamaican dollar investment opportunities and obligations. Jamaican dollar liquidity would be managed by net issues of 30-day CDs and other instruments, contingent on market conditions.

4.3 Discussion

4.3.1 Overall, the discussions mainly focused on the impact of the Bank's policy actions on the market and the need to identify policy measures to improve the monetary policy transmission mechanism. The MPC, in this regard, expressed concern about the stickiness in loan and deposit rates in the context of the adjustments in the Bank's policy rate. The discussions also surrounded the excess liquidity in the system and its role in limiting the impact of the Bank's monetary adjustment on market interest rates. It was recommended that a deeper analysis be done to identify the factors that contribute to this stickiness. The MPC also discussed the need for the Bank to absorb the excess liquidity in the system more aggressively. Finally, the Committee highlighted the financial system's structural issues that have helped to impede the Bank's policy actions and requested some policy options to address these issues. This would be presented to the MPC during the second half of 2022.

4.3.2 To maintain stability in the FX market, the Committee noted the need to identify more sustainable measures that would aid in the efficient management of the FX market.

4.3.3 Following the discussions, the meeting ended on 16 February 2022 at 11:45 a.m.

THE COMMITTEE RECONVENED ON 17 February 2022 AT 9:00 a.m.:

5.0 Monetary Policy Decision

5.1 On 17 February 2022, the Committee accepted and adopted the staff's assessment of risks and policy recommendations. The Committee also evaluated and discussed five policy options recommended by Bank staff. These policy

actions included: (i) the sale of some securities by BOJ; (ii) the issue of a variable-rate instrument; (iii) the issue of a fixed-rate instrument; (iv) the reduction of the surrender requirement; and (v) a temporary cessation of foreign currency corporate bonds issued by exempt distribution.

5.2 Based on the discussions on 16 and 17 February 2022, the Chairman invited the Committee to vote on the proposed package of measures which included an increase in the Bank's policy rate by 150 bps to 4.00 per cent. The package also included stronger measures to contain Jamaican dollar liquidity expansion and to maintain stability in the FX market.

5.3 The Committee **unanimously** voted in favour of the proposed package of measures. Consistent with meeting its inflation target sustainability in the medium term, the MPC agreed to consider maintaining or expanding its suite of policy measures at subsequent policy meetings, subject to inflation expectations and other macroeconomic data evolving as projected.

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) Quarterly Monetary Policy Report for the December 2021 quarter; (iv) Monetary Policy Statement to the Minister/Standing Finance Committee (SFC); and (v) Missed Inflation Target Report to Minister (December 2021 and January 2022).

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; (iii) the Quarterly Monetary Policy Report for the December 2021 quarter; (iv) Monetary Policy Statement to the Minister/SFC; and (v) Missed Inflation Target Report to Minister (December 2021 and January 2022).

7.0 Any other Business

7.1 There was no other business raised.

8.0 Adjournment of the Meeting

8.1 There being no other business, the Chairman adjourned the meeting on 17 February 2022 at 10:24 a.m.

SUMMARY OF APPROVALS/DECISIONS

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

ITEM NO.	DESCRIPTION	APPROVALS/DECISIONS
1.	Minutes of the MPC's Minutes Approval Meeting held on 07 January 2022	APPROVED-Meeting of 16 February 2022
2.	Agreement by MPC to increase the Policy Rate by 150 bps to 4.00% and accompanying measures	APPROVED-Meeting of 17 February 2022
3.	Summary of Monetary Policy Discussion and Decision-February 2022	APPROVED-subject to amendments agreed on at the meeting of 17 February 2022
4.	Monetary Policy Press Release- February 2022	APPROVED-subject to amendments agreed on at the meeting of 17 February 2022
5.	Quarterly Monetary Policy Report - February 2022	APPROVED-subject to amendments agreed on at the meeting of 17 February 2022
6.	Monetary Policy Statement to Minister/SFC – February 2022	APPROVED-subject to amendments agreed on at the meeting of 17 February 2022
7.	Reports to Minister on Missed Inflation Target – December 2021 and January 2022	APPROVED-subject to amendments agreed on at the meeting of 17 February 2022