



BANK OF JAMAICA

**MINUTES OF THE
MONETARY POLICY COMMITTEE MEETINGS**

HELD VIRTUALLY

ON

FRIDAY, 25 MARCH 2022 AND MONDAY, 28 MARCH 2022

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Minutes of the Monetary Policy Committee ("MPC/the Committee") meetings held virtually on Friday, 25 March 2022 (Briefing Meeting) at 9:00 a.m. and Monday, 28 March 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 ¹	Division Chief, REPD ²
Mrs. Sharon Miller-Betty	Deputy Division Chief, REPD
Mrs. Natalie Haynes ³	Deputy Governor
Mr. Taffi Bryson ⁴	Director, Market Operations and Analysis Department
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Mrs. Karelle Tyrell ⁵	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 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 08 March 2022 were confirmed on a motion moved by Dr. Nadine McCloud, seconded by Mr. David Marston.

¹ In attendance at the meeting on 25 March 2022 only.

² The Bank's Research and Economic Programming Division.

³ In attendance at the meeting on 25 March 2022 only.

⁴ In attendance at the meeting on 25 March 2022 only.

⁵ In attendance at the meeting on 28 March 2022 only.

3.0 Matters Arising

3.1 Interim Report: Financing of the Construction Sector

- 3.1.1 Ms. Carey-Anne Williams presented the preliminary findings of an assessment of the construction sector's financing in Jamaica. The preliminary assessment indicated that new loans disbursed for the construction of residential and commercial properties in Jamaica from three sub-sectors of the financial system accounted for a small proportion of the value created by the construction sector in 2020 and 2021. The three sub-sectors included deposit-taking institutions (DTIs), Jamaica Mortgage Bank and funding through the issue by developers of corporate securities. DTI loans accounted for the largest share of identified financing.
- 3.1.2 Subject to the successful completion of initiatives to source the data, the next update intends to include additional sources of financing for the sector and an assessment of demand and supply conditions for new homes and the residential rental market.

4.0 Monetary Policy Matters

4.1 Risk Assessment for Macroeconomic Projections and Monetary Policy Recommendations

- 4.1.1 A presentation containing the Bank staff's assessment of risks to the February 2022 macroeconomic projections and the staff's recommendations for monetary policy was tabled by Mrs. Sharon Miller-Betty.

February 2022 Macroeconomic Projections

- 4.1.2 In February 2022, the Bank's staff had projected that inflation would average 6.0 to 7.0 per cent over the next two (2) years. However, inflation would continue to successively breach the upper limit of the Bank's target range over the next 8 to 10 months, peaking in the range of 9.0 to 11.0 per cent. This forecast was underpinned by elevated imported inflation, which reflected higher international commodity and shipping prices, rising US inflation, and an improvement in domestic demand. Conditional on a tightening of monetary conditions, a deceleration in imported inflation and a moderation in inflation expectations, inflation was projected to trend towards the mid-point of the Bank's target range by the December 2022 quarter.
- 4.1.3 Continued recovery in domestic demand was expected over the next two years, mainly driven by external demand. The improvement in domestic demand would be reflected in a rebound in Tourism and related industries (Transportation, Manufacture, Agriculture, Other Services).

4.1.4 Commodity prices (WTI crude oil, LNG and grains) were projected to decline over the next two years generally. However, WTI crude oil prices were projected to increase in FY2021/22 and FY2022/23. Similarly, the Bank projected higher grains prices (Corn, Soy and Wheat) up to the June 2022 quarter, after which they were projected to decline due to a rebound in global supply.

Risk Assessment

4.1.5 The Bank's inflation forecast was likely to be revised upwards at the next forecast round because of the following recent developments, among other considerations:

- i. At February 2022, the annual inflation rate was 10.7 per cent, which was above the Bank's forecast, the outturn at January 2022 and the inflation target of 4.0 per cent to 6.0 per cent. The acceleration in inflation at February 2022, relative to January 2022, reflected higher inflation for meats, transportation, and agricultural commodities, consequent on elevated import prices of fertilizers, animal feed, fuel, among others.
- ii. In January 2022, the Jamaican Producer Price Index (PPI), which measures producers' selling prices, rose at an annual rate of 22.1 per cent. This rate of increase reflected a higher than expected pass-through from international commodity prices to local prices and signals an upside risk to the inflation projection.
- iii. One-year-ahead inflation expectations, measured by a survey of Jamaican businesses in December 2021, rose to 9.8 per cent from 8.9 per cent in November 2021 and was above the Bank's forecast. The Bank's high-frequency estimate of inflation expectations also suggested an acceleration at March 2022. It was also reported that the conflict and sanctions surrounding the Russia-Ukraine war would further increase inflation expectations. These trends in expectations pose an upside risk to the inflation outlook.
- iv. WTI oil prices trended higher to US\$90.60 per bbl compared to the Bank's forecast of US\$84.66 per bbl for February 2022. Similarly, for the month to 16 March 2022, prices averaged US\$108.25 per bbl relative to the Bank's forecast of US\$83.81 per bbl for March 2022. LNG prices also trended above projections due to the Russian-Ukraine conflict and the anticipation of colder weather conditions. The forecast for

energy prices over the remainder of March 2022 and the June 2022 quarter is likely to be revised upwards. This upward revision is a function of the conflict between Russia and Ukraine, a decline in US inventories, threats to oil infrastructure in the United Arab Emirates and concerns that OPEC's oil supplies have fallen short of its targeted quota.

- v. Average grains prices tracked above the Bank's forecast at February 2022 due to the Russian-Ukraine crisis and a significant increase in fertilizer and transportation costs. Over the next two years, average grains prices are expected to increase due to the conflict.

4.1.6 The Bank at the February forecast round had projected a recovery in domestic economic activity in the range of 7.0 per cent to 10.0 per cent for fiscal year (FY) 2021/22. Growth was projected to moderate within the range of 2.0 per cent to 4.0 per cent for FY2022/23.

Growth is likely to fall closer to the lower end of this forecast range due to the impact of the Russia-Ukraine conflict and higher inflation on domestic consumption. The downside risk to the GDP growth forecast also contemplated the risk of lower capacity utilization in some industries such as mining and petroleum refining and slower growth in agriculture. However, the faster pace of re-opening of the economy could add support to aggregate demand.

4.1.7 The global growth outlook, which supports the projections for the growth in Jamaica's GDP, is also likely to be lowered due to the impact of rising geopolitical tensions, supply bottlenecks and higher inflation.

4.1.8 Inflation among Jamaica's main trading partners (TP Inflation) as of January 2022 was broadly in line with the Bank's projection. TP inflation is, however, expected to trend above the Bank's projection over the next two years. In particular, inflation in the US accelerated to 7.9 per cent in February 2022 from 7.5 per cent in January 2022 and is expected to remain elevated for some time.

4.1.9 In March 2022, the US Federal Reserve (Fed) increased the policy rate by 25 basis points (bps), which was in line with the Bank's forecast. The Fed signalled its intent to increase the benchmark federal funds rate at a much faster pace than originally projected.

- 4.1.10 For FY2021/22, the projected surplus on the current account of the balance of payments (equivalent to 2.8 per cent of GDP) was underpinned by higher remittances and higher tourism inflows, partially offset by higher imports. The current account balance was projected to deteriorate in FY2022/23.
- 4.1.11 The risks to projected tourism earnings and remittances are skewed to the downside due to lower external growth stemming from the impact of the Russia-Ukraine conflict. The risks to the goods balance are skewed to the downside, which stem from higher import prices associated with increases in commodity prices.
- 4.1.12 Liquidity conditions for the March 2022 quarter were tighter than forecast and are expected to remain tight over the next three months.
- 4.1.13 In the context of the Bank's intervention in the foreign exchange market and tighter liquidity conditions, the exchange rate has reflected greater stability relative to the recent past. The Bank's international reserves continue to remain adequate relative to the benchmark Assessing Reserve Adequacy (ARA) metric, which reflects the Bank's capacity to support the Jamaican foreign exchange market when necessary.
- 4.1.14 The MPC was presented with the results of an informal survey of five commercial banks to quantify the extent of interest rate adjustments by these institutions on their deposit and loan products in the context of the recent adjustments in BOJ's monetary policy stance. The MPC noted that, in the wake of its monetary policy adjustments, while interest rates in the money market continued to increase and liquidity has tightened, interest rates on new bank deposits and loans had only risen marginally.

Recommendation

- 4.1.15 The Bank's staff recommended that Bank of Jamaica further reduce its level of monetary policy accommodation via a suite of measures. The staff recommended that the Bank further increase the policy rate by 50 bps and maintain measures aimed at moderating inflation expectations, including the containment of Jamaican dollar liquidity expansion.

4.2 Phase Out the Non-Cash Liquid Asset Requirement

- 4.2.1 Mr. Robert Stennett, Deputy Governor, briefed the Committee on the Bank's plan to phase out the non-cash liquid asset requirement (NLAR) for deposit-taking institutions (DTIs). The proposed adjustments included a reduction of 5 percentage

points (pps), 5 pps and 4 pps at end-March 2022, end-June 2022 and end-September 2022, respectively. The phased reductions were intended to gradually remove the inconsistency in Bank of Jamaica's economic and financial system management frameworks that emerged after the introduction of Bank of Jamaica's Liquidity Coverage Ratio (LCR) requirement in 2020.

4.3 Financial Market Update and Short-Term Outlook

- 4.3.1 Mr. Taffi Bryson, Head of the Market Operations and Analysis Department, presented on recent developments in the financial markets and provided a short-term outlook for conditions in the money and foreign exchange market. He highlighted that tight liquidity conditions continued in February and March 2022.
- 4.3.2 Against the background of the Bank's policy rate adjustment and tighter liquidity conditions, rates across the Government of Jamaica (GOJ) yield curve continued to rise in January 2022, with a larger than proportionate increase at the shorter end of the yield curve. Private money market rates also increased. The weighted average yield on the Bank's 30-day CD increased since the policy change announcement. Similarly, the most recent GOJ Treasury Bill auctions for the 90-day and 182-day tenors reflected an increase in average yields of 253 bps and 225 bps, respectively at end-February 2022 relative to end-January 2022.
- 4.3.3 The foreign exchange (FX) market continued to exhibit two-way movement. For the calendar year to 21 March 2022, the weighted average selling rate (WASR) appreciated by 1.0 per cent (J\$1.48) compared with a depreciation of 2.7 per cent for the period January to March 2021. Following a depreciation for January 2022, an appreciation was recorded for February and for the month to 21 March 2022, which reflected subdued demand conditions. The BOJ continued to support the maintenance of orderly conditions in the market. In February, US\$116.2 million of liquidity was injected into the market through the Bank's BFXITT intervention window.
- 4.3.4 In terms of the near-term outlook, Jamaican dollar liquidity is expected to increase in April 2022, given the maturity of BOJ and GOJ securities during the month. Contingent on market conditions and in coordination with the GOJ, this liquidity would be managed by the Bank's net placement of 30-day CDs and other instruments.

4.4 Discussion

- 4.4.1 The MPC welcomed the view that the Bank's gross reserves were adequate to maintain stability in the foreign exchange market, particularly amidst the uncertainties caused by the Russia/Ukraine conflict. The Committee also stressed the need for the Bank to continue to maintain adequate reserves to assure the resilience of the Jamaican economy to shocks.
- 4.4.2 The Committee expressed satisfaction with the outcome of the policy measures aimed at the containment of Jamaican dollar liquidity expansion. However, members noted the stickiness of banks' loan and deposit interest rates. Potential explanations for this stickiness included the view that banks may have been reluctant to tighten financing conditions in a context where overall credit growth had slowed and their customers were still adjusting to the impact of the COVID-19 pandemic and the Russia-Ukraine war. However, it was noted that, notwithstanding those shocks, non-performing loans (NPLs) have remained generally low. The MPC reiterated that, to improve the DTI sector's response to adjustments in the Bank's monetary policy actions, it was imperative to address the structural issues that impede the transmission process.
- 4.4.3 The MPC also discussed the most effective way to measure the second-round effects on the CPI of shocks to commodity and shipping prices. It was noted that core inflation, which captures the change in the cost of goods/services, excluding the immediate influence of food and energy prices, while high, appeared to be levelling off. It was noted that a detailed breakout of the components of core inflation would be presented at the next MPC meeting.
- 4.4.4 The Committee noted that the JMD/US interest rate differential was more favourable over the next two years than the Bank's previous projection largely due to the GOJ Treasury Bill outturn for March 2022. However, the Committee further noted that the interest rate differential would need to be sufficient to improve the attractiveness of Jamaican dollar-denominated assets relative to foreign currency-denominated assets.
- 4.4.5 Following the discussions, the meeting ended on 25 March 2022 at 11:45 a.m.

THE COMMITTEE RECONVENED ON 28 March 2022 AT 9:00 a.m.:

5.0 **Monetary Policy Decision**

5.1 The Committee accepted and adopted the staff's assessment of risks and policy recommendations.

5.2 Based on the discussions on 25 and 28 March 2022, the Chairman invited the Committee to vote on the proposed package of measures that (i) the Bank increase the policy rate by 50 bps to 4.50 per cent and (ii) continue to pursue other measures to contain Jamaican dollar liquidity expansion and maintain relative stability in the foreign exchange market. The MPC noted that it is prepared to take further appropriate actions at its next meeting, depending on the incoming data.

5.3 The Committee **unanimously** voted in favour of the proposed package of measures.

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 and (ii) the Monetary Policy Press Release.

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, and (ii) the Monetary Policy Press Release for distribution to the media and its publication on the Bank's website.

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 28 March 2022 at 10:30 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 increase the Policy Rate by 50 bps to 4.50 per cent and accompanying measures	APPROVED- Meeting of 28 March 2022
2.	Summary of Monetary Policy Discussion and Decision-March 2022	APPROVED-subject to amendments agreed on at the meeting of 28 March 2022
3.	Monetary Policy Press Release-March 2022	APPROVED-subject to amendments agreed on at the meeting of 28 March 2022