



BANK OF JAMAICA

**MINUTES OF THE
MONETARY POLICY COMMITTEE MEETINGS**

HELD VIRTUALLY

ON

THURSDAY, 12 MAY 2022 AND FRIDAY, 13 MAY 2022

Table of Contents

ATTENDANCE	3
1.0 CALL TO ORDER AND APOLOGIES	3
2.0 CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING	4
3.0 MATTERS ARISING	4
3.2 INVESTIGATION INTO THE INCREASE IN RENTAL PRICES	4
3.3 IDENTIFY MEASURE(S) TO SUPPORT THE EXISTING INFLATION EXPECTATIONS SURVEY	4
3.4 PROVIDE A DETAILED BREAKOUT OF THE COMPONENTS OF CORE INFLATION	4
4.0 MONETARY POLICY MATTERS	5
4.1 MACROECONOMIC PROJECTIONS, RISKS AND MONETARY POLICY RECOMMENDATIONS	5
4.2 FINANCIAL MARKET UPDATE AND SHORT-TERM OUTLOOK	7
4.3 DISCUSSION	8
5.0 MONETARY POLICY DECISION	9
6.0 SUMMARY OF DECISIONS MADE AT THE MEETING (MONETARY POLICY COMMUNICATION)	9
7.0 ANY OTHER BUSINESS.....	10
8.0 ADJOURNMENT OF THE MEETING.....	10
SUMMARY OF APPROVALS/DECISIONS.....	10

Minutes of the Monetary Policy Committee (MPC) meeting held virtually on Thursday, 12 May 2022 (Briefing Meeting) at 9:30 a.m. and Friday, 13 May 2022 (Decision/Communication Meeting), at 9:00 a.m. via Microsoft Teams Meeting.

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. Sharon Miller-Betty	Acting Division Chief, Research and Economic Programming Division (REPD)
Mrs. Prudence Serju-Thomas	Acting Deputy Division Chief, REPD
Mrs. Natalie Haynes*	Deputy Governor
Mr. Taffi Bryson*	Head, Market Operations and Analysis Department
Ms. Arlene Tomlinson	Senior Director, Board/Management Secretariat
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Mrs. Karelle Tyrell**	Head, Monetary Policy Communication Unit, REPD
Ms. Shannon Spencer	Monetary Policy Committee Secretary

* In attendance at the 12 May 2022 meeting only

**In attendance at the 13 May 2022 meeting only

1.0 Call to Order and Apologies

1.1 The Chairman called the meeting to order and welcomed all to the meeting.

1.2 The Committee was informed that Mrs. Prudence Serju-Thomas, Acting Deputy Division Chief of REPD, would attend the MPC meetings until Ms. Carey-Anne Williams returned from leave.

1.3 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 19 April 2022 were confirmed on a motion moved by Mr. David Marston, seconded by Dr. Nadine McCloud.

3.0 **Matters Arising**

3.1 Mrs. Sharon Miller-Betty, Acting Division Chief, updated the Committee on the status of three action items.

3.2 **Investigation into the increase in rental prices**

3.2.1 In the context of a notable increase in house rental prices in early 2021, the MPC had requested an investigation into the house rental market. The existing housing rental market data was inadequate to conduct the required analyses. Consequently, the Bank had engaged various public and private agencies to collect data on the sector. However, the Bank had not yet received the required data from these stakeholders. Thus, a market analysis could not be presented to the Committee until the data became available.

3.3 **Identify measure(s) to support the existing inflation expectations survey**

3.3.1 A preliminary survey of households' inflation expectations revealed that 86 per cent of respondents believed that prices had increased significantly over the past year. For the next 12 months, 91 per cent of respondents also expected prices to rise significantly. Their expectations were primarily influenced by movements in the exchange rate, changes in the cost of imports and recent trends in prices. It was highlighted that 32 per cent of the participants rated the Bank's performance in controlling inflation as fair, while 8 per cent rated the Bank's performance as excellent. Given the preliminary nature of the results, the Bank would re-engage the entity that administered the survey to adjust some questions for future surveys. The findings from these updated surveys would be presented at subsequent MPC meetings.

3.4 **Provide a detailed breakout of the components of core inflation**

3.4.1 The action item on the contribution of the major macroeconomic variables to recent trends in core inflation would form a part of the Bank's overall report to the Committee.

4.0 Monetary Policy Matters

4.1 Macroeconomic Projections, Risks and Monetary Policy Recommendations

- 4.1.1 The Monetary Policy Assessment (MPA) Report, which contained the Bank staff's macroeconomic analyses of current and prospective economic developments, was tabled. Mrs. Miller-Betty presented the Bank's macroeconomic projections, risks and monetary policy recommendations from the MPA Report.
- 4.1.2 The annual point-to-point inflation rate at March 2022 was 11.3 per cent, above the Bank's projection of 8.9 per cent and represented the eighth consecutive breach of the Bank's inflation target of 4.0 to 6.0 per cent since August 2021. However, core inflation at March 2022 fell relative to February 2022 but remained elevated.
- 4.1.3 As requested by the MPC, the contribution of the major macroeconomic variables to core inflation over the past 12 months was presented. The acceleration in core inflation was driven mainly by heightened inflation expectations and higher imported inflation.
- 4.1.4 While headline inflation is forecasted to rise further over the next three months, the Bank forecasts inflation to fall in the second half of the year, consistent with the consensus forecast for a fall in international commodity prices. In this context, inflation is projected to average 8.0 to 9.0 per cent over the next two years, which is higher when compared to the average inflation rate of 6.6 per cent over the past two years. The inflation forecast anticipates that the public's expectations of inflation would fall in the second half of 2022, which is also consistent with the consensus forecast for a fall in international commodity prices. Inflationary pressures over the next two years are also projected to reflect agricultural price inflation and adjustments in administered prices.
- 4.1.5 The latest survey data on businesses' inflation expectations in March 2022 indicated that their expectations over the next 12 months jumped to 12.1 per cent, from the 9.8 per cent reported in the last survey. While this expectation is above the Bank's target range and forecast, it is expected to fall in the second half of 2022 as commodity prices (oil and grains) decline.
- 4.1.6 The projections for grains prices (corn, wheat, soybean) over the next two years were revised upwards relative to the previous forecast. Average grains prices for the March 2022 quarter increased by 20.1 per cent, a faster pace compared to the 10.2 per cent increase recorded for the December 2021 quarter. Grains prices are projected to continue to increase until the September 2022 quarter, before

trending downwards. Similarly, oil prices are projected to average US\$100.20 per barrel for the next eight quarters, which is above the previous forecast. However, moderate downward oil price pressures are projected to emerge following the June 2022 quarter as US shale production increases in the near term.

- 4.1.7 The MPC was informed that the risks to the forecast were skewed to the upside (which means that actual inflation could track above the forecast).
- 4.1.8 The projections for GDP growth in FY2021/22 and FY2022/23 are broadly similar to the previous forecast. Real GDP growth for fiscal year (FY) 2021/22 is estimated 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. This growth outlook continues to be driven by the Services Industries (particularly tourism) and the assumption that production at one of Jamaica's main alumina plants will resume operations by June 2022.
- 4.1.9 Supported by leading indicators, the Bank estimated real GDP growth for the March 2022 quarter in the range of 4.5 to 6.5 per cent. This estimate is underpinned by a rebound in several industries.
- 4.1.10 Global economic growth over the next two years (June 2022 to March 2024) is projected to average 2.4 per cent, slightly weaker relative to the previous projection. The forecast for global growth reflects the impact of the war in Ukraine and expectations for a slowdown in the Chinese economy amid new COVID-19 related restrictions and the expected impact these developments could have on supply chains. Real output growth in the US is projected to grow by 3.2 per cent in 2022 and moderate to 1.9 per cent in 2023, which are slightly below the previous projections. US inflation is also projected to be more elevated over the next eight quarters (an average of 5.2 per cent compared to the previous projection of 4.3 per cent). Still, it is expected to converge to the US Federal Reserve's (Fed) 2.0 per cent target over the medium term. The Fed cumulatively increased interest rates by 0.75 percentage points in March and May 2022 and indicated that additional rate hikes would occur in the future. The Bank anticipates that the Fed will raise interest rates in its remaining five meetings for 2022.
- 4.1.11 For FY2021/22, the current account of Jamaica's balance of payments is estimated to have improved to a smaller surplus in the range of 0.0 to 1.0 per cent of GDP, compared to the previous forecast. This projection is mainly underpinned by increased travel-related expenditure and higher remittance inflows, partly offset by higher imports and investment income outflows. Over the next two years, the current account deficit (CAD) is projected to be higher than the previous

forecast. This projection is due to a higher deficit on the merchandise trade balance and deterioration in the income sub-account, partly offset by improvements in the current transfer and services sub-accounts. The CAD over the medium term (FY2024/25 to FY2027/28) is forecasted to average between 0.0 to 1.0 per cent of GDP.

4.1.12 Influenced by adjustments in the Bank's policy rate, selected money market interest rates rose over the March 2022 quarter compared to the December 2021 quarter. Banks' interest rates on new loans to medium and large businesses increased relative to the previous quarter, but the increases were less than expected. Similarly, over the same period, the rise in deposit rates was weaker than expected.

4.1.13 The MPC was presented with the results of four macroeconomic scenarios. The first scenario simulated the impact of holding the policy rate unchanged for four additional quarters. The second scenario simulated a shock to oil prices over the near term due to additional sanctions on Russia. The third scenario simulated the effects of the anticipated moderation in inflation expectations being slower than the baseline. The last scenario simulated the impact of a resurgence of COVID-19 infection rates on domestic demand.

4.1.14 Given the foregoing assessment, the Bank's staff recommended that Bank of Jamaica increase the policy rate by 50 bps and maintain tight Jamaican dollar liquidity conditions and exchange rate stability. Also, consistent with meeting its inflation target credibly in the medium term, the staff recommended that the Committee signal that future monetary policy decisions would be subject to the incoming data evolving as projected.

4.2 Financial Market Update and Short-Term Outlook

4.2.1 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. Jamaican dollar liquidity at end-April 2022 increased compared to the previous month due to injections by the BOJ and the Government of Jamaica (GOJ).

4.2.2 For April 2022, money market rates increased, with the market exhibiting a preference to stay at the shorter end of the yield curve. In this context, interest rates on BOJ 30-day FR CDs, the 90-day and the 180-day GOJ treasury bills continued to increase. The demand for higher yield was influenced by past increases in the Bank's policy rate, the market's anticipation of further interest rate

hikes, the expectation that inflation would remain above the upper limit of the target and reduced incentives for institutions to hold short term securities in light of the Bank's announced reduction in the Non-Cash Liquid Asset Requirement between March and October 2022.

- 4.2.3 The foreign exchange market continued to reflect stability. For the calendar year to 29 April 2022, the weighted average selling rate (WASR) appreciated by 0.2 per cent compared to a depreciation of 7.6 per cent for the corresponding period in 2021. Similarly, the average daily WASRs for April 2022 depreciated at an annual rate of 0.7 per cent, relative to a depreciation of 5.0 per cent for the same measure of the exchange rate in April 2021. The movement in the exchange rate for April continued to reflect seasonal demand pressures and supply.
- 4.2.4 Foreign exchange forward market activity for the USD/JMD currency pair reflected increased net purchases for April 2022, relative to the previous month.
- 4.2.5 In terms of the near term outlook, the Jamaican dollar money market would continue to be managed by the Bank through net issues of 30-day CDs and other instruments, contingent on market conditions.

4.3 Discussion

- 4.3.1 The MPC noted the following from the two presentations:
 - 4.3.1.1 Notwithstanding the recent stability in the exchange rate, the public continued to highlight the exchange rate as a significant factor influencing their inflation expectations. It would perhaps require a more extended period of stability for these views to adjust.
 - 4.3.1.2 Private sector dollarization increased in January 2022 relative to the previous month. There was, however, no immediate concern about this development, given the relative stability of the exchange rate.
 - 4.3.1.3 The current unsettled labour market presented a risk to the inflation outlook. For this not to be the case, wage increases above the inflation target would have to be accompanied by improved productivity.
- 4.3.2 The Committee also indicated a need for the Bank to enhance its communication on monetary policy. It was important for the Bank's messages to reach more stakeholders to help curb inflation expectations.

4.3.3 In the context of the presentations and discussions, the MPC agreed that further monetary tightening was warranted. The pace at which this should be achieved was, however, discussed. There was a view that, given the weak monetary policy transmission and the uncertainty among the public and private sector about where interest rates would go, the policy rate should be increased in the shortest possible time to the level that will facilitate a return of inflation to the target range. The majority of members felt that this should be achieved incrementally.

4.3.4 Following the discussions, the meeting ended on 12 May 2022 at 12:12 p.m.

THE COMMITTEE RECONVENED ON 13 May 2022 AT 9:00 a.m.:

5.0 Monetary Policy Decision

5.1 On 13 May 2022, the Committee accepted the staff's forecast and assessment of risks and noted its policy recommendations. The Committee, however, continued the discussions concerning the level of the proposed increase in the policy rate. The majority of members expressed the view that a 50 basis points (bps) increase as proposed was appropriate, especially given the forecasted trajectory of inflation. Some members reiterated that the policy rate should be adjusted by more than the recommended 50 bps such that, when combined with the Bank's other policy measures, interest rates in the economy will be sufficient to facilitate a return of inflation to the target range. This is against the background of the magnitude and nature of the upside risks to the inflation outlook and the uncertainty about the trend in interest rates in the economy.

5.2 The Chairman invited the Committee to vote on the proposed package of measures, which included an increase of 50 bps in the Bank's policy rate and other measures to contain Jamaican dollar liquidity expansion and maintain stability in the FX market.

5.3 By **majority** decision, the MPC agreed to further increase the policy rate by 50 bps to 5.00 per cent. Two members dissented in respect of the level of the increase. The Committee **unanimously** agreed to continue other measures to contain Jamaican dollar liquidity expansion and maintain stability in the foreign exchange market.

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; and (iii) Quarterly Monetary Policy Report for the March 2022 quarter.

6.2 The Committee recommended that the documents be revised based on the discussions on 12 and 13 May 2022 and shared with members for their approval. On 19 May 2022, 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 March 2022 quarter via round-robin.

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 13 May 2022 at 10:25 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 19 April 2022	APPROVED- Meeting of 12 May 2022
2.	Agreement by MPC to increase the Policy Rate by 50 bps to 5.00% and accompanying measures	APPROVED- Meeting of 13 May 2022
3.	Summary of Monetary Policy Discussion and Decision-May 2022	APPROVED on 19 May 2022 via round-robin subject to amendments agreed on at the meeting of 13 May 2022
4.	Monetary Policy Press Release- May 2022	APPROVED on 19 May 2022 via round-robin subject to amendments agreed on at the meeting of 13 May 2022

5.	Quarterly Monetary Policy Report -May 2022	APPROVED on 19 May 2022 via round-robin.
----	--	---