



BANK OF JAMAICA

**MINUTES OF THE
MONETARY POLICY COMMITTEE MEETINGS**

HELD VIRTUALLY

ON

MONDAY, 27 JUNE 2022 AND TUESDAY, 28 JUNE 2022

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Minutes of the Monetary Policy Committee (MPC) meetings held virtually on Monday, 27 June 2022 (Briefing Meeting) at 9:00 a.m. and Tuesday, 28 June 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*	Director, Market Operations and Analysis Department
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Mrs. Karelle Tyrell**	Head, Monetary Policy Communication Unit, REPD
Ms. Arlene Tomlinson	Senior Director, Board/Management Secretariat
Mr. Lance Rochester*	Senior Director, Modelling and Economic Programming Unit, REPD
Ms. Shannon Spencer	Monetary Policy Committee Secretary

* *In attendance at the 27 June 2022 MPC meeting only*

** *In attendance at the 28 June 2022 MPC meeting only*

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

3.0 Matters Arising

3.1 Update: Household Inflation Expectations Survey

3.1.1 Mrs. Sharon Miller-Betty, Acting Division Chief of REPD, informed the meeting that, following the preliminary survey results of households' inflation expectations presented at the last MPC meeting, the Bank had re-engaged the entity that administered the survey. The engagements sought to secure additional information and quantify the respondents' inflation expectations. She noted that the outcomes from these engagements would be presented at subsequent MPC meetings.

3.2 Status update: Deposit Account & Credit Portability Project

3.2.1 Mr. Lance Rochester, Senior Director of Modelling and Economic Programming Unit, updated the MPC on the Deposit Account and Credit Portability project. The general structure and limitations of the project were outlined to the Committee. In this regard, the proposed structure of the project included reviews of (1) the existing international antecedents, (2) the Jamaican financial infrastructure, and (3) the preconditions that need to be in place for portability. The paper would aim to deliver a cost-benefit analysis of various options and a recommendation.

3.2.2 With the risks and opportunities associated with the project, it was highlighted that the timely leveraging of existing institutional capacity was challenging. To address the limited resources available to the project, the Chairman offered to use his office to constitute a more comprehensive project team drawn from the Bank. In terms of other risks and opportunities, it was noted that effective external stakeholder engagement would be critical to the successful completion and implementation of the project. Additionally, the ability to source or access data necessary for cost-benefit analysis of the technological infrastructure needed to support portability could be challenging. Delays in implementing the relevant consumer survey were also a risk to this project. Further updates on the project would be presented at subsequent MPC meetings.

3.3 Presentation: Neutral Interest Rate

3.3.1 Mrs. Prudence Serju-Thomas, Acting Deputy Division Chief of REPD, reviewed background information on the neutral interest rate. The presentation outlined the theoretical overview of the neutral rate of interest, how to measure and interpret

Jamaica's neutral rate of interest, and a review of the recent history of interest rates relative to the neutral rate. The neutral rate is the real interest rate obtained when the economy is at full employment and inflation is stable. Deviations of real interest rates from the neutral rate induce business cycles. Changes in the neutral rate are influenced by factors that change the demand and supply for savings, including changes in monetary and fiscal policy, saving/investment propensities and productivity. Short-run measures of the neutral rate can be estimated via univariate and multivariate filters. In contrast, the long-run estimate in the Bank's model is estimated in a standard uncovered interest parity (UIP) framework.

3.3.2 The neutral rate is used as an indicative guide for monetary policy and not as a target. Over 2017 to 2021, the Bank's monetary policy stance was accommodative as market interest rates were below the neutral rate. More recently, the extent of this accommodation has fallen in the context of the Bank's monetary policy actions.

4.0 Monetary Policy Matters

4.1 Risk Assessment for Macroeconomic Projections and Monetary Policy Recommendations

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

May 2022 Macroeconomic Projections

4.1.2 In May 2022, the Bank's staff had projected that inflation would average 8.0 to 9.0 per cent over the next two (2) years (June 2022 to March 2024), peaking in the range of 12.0 to 15.0 per cent by the June 2022 quarter and falling within the target range by the June 2023 quarter. This forecast was underpinned by elevated imported inflation, which reflected high international commodity and shipping prices, rising US inflation, elevated core inflation, an acceleration in agricultural prices, and administered price adjustments. The forecast anticipated that the public's expectation for future inflation would begin to fall in the second half of 2022, consistent with the projections for a decline in international commodity prices during that period.

4.1.3 Continued recovery in domestic demand was expected over the next two years, mainly driven by an expansion in external demand and a rebound in domestic economic activity, influenced by a recovery in industries impacted by the COVID-19 pandemic.

4.1.4 The global economy over the next two years was projected to expand. The forecast nonetheless reflected the impact of the war between Ukraine and Russia, 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.

Monetary Policy Effectiveness

4.1.5 In the wake of the MPC's continued monetary policy adjustments, an informal survey of five commercial banks administered during June indicated that interest rates on new bank deposits and loans in Jamaica have started to adjust upwards.

4.1.6 Additionally, the policy measures contributed to the maintenance of stability in the foreign exchange market and liquidity remained tight.

Recent Developments and Risk Assessment

4.1.7 Global growth was lower than forecast for the March 2022 quarter due to rising geopolitical tensions, supply bottlenecks and higher inflationary pressures. US GDP for the March 2022 quarter declined relative to the Bank's forecast. This outturn in US GDP mainly reflected the impact of strong import growth and a decline in government spending. It was indicated that growth for the June 2022 quarter and ensuing quarters may be lower than projected but, supported by consensus forecasts and the projections of other professional forecasters, the risk of a recession in the US over the next year remained low.

4.1.8 Inflation among Jamaica's main trading partners at April 2022 was broadly in line with the Bank's projection. Notably, inflation in the US accelerated to 8.6 per cent at May 2022, compared to the Bank's projection of 8.0 per cent. In this context, the risks to trading partners' inflation are skewed to the upside due to higher energy prices and rising inflation expectations.

4.1.9 In June 2022, the US Federal Reserve (Fed) increased the target for the policy rate by 75 basis points (bps), which was higher than the Bank's forecast. In this regard, the interest rate differential (the difference between domestic money market rates and those in the US) worsened relative to the May 2022 forecast.

4.1.10 At the May 2022 forecast round, the Bank projected recovery in domestic economic activity for fiscal year (FY) 2021/22 in the range of 7.0 per cent to 10.0 per cent. Growth was projected to moderate within the range of 2.0 per cent to

4.0 per cent for FY2022/23. Real GDP growth for the March 2022 quarter was now expected to be above projections, partly due to faster growth in the manufacturing sector.

4.1.11 Leading indicators of GDP supported higher growth for the June 2022 quarter, influenced by improved activities in Tourism and its allied services and Agriculture, partly offset by lower growth for Mining and Electricity & Water. The risks to the domestic GDP forecast are balanced.

4.1.12 The merchandise trade balance for January 2022 tracked broadly in line with projection due to higher exports, partially offset by higher imports. Tourism earnings were performing better than expected for April and May 2022. For May 2022, visitor arrivals were higher than the Bank's projection. It was also highlighted that remittances declined slower than expected.

4.1.13 The risks to the Bank's inflation forecast are balanced but there remains a high level of uncertainty. The following recent developments, among other considerations, were likely to influence the next forecast round:

- i. At May 2022, the annual inflation rate was 10.9 per cent, which was below the Bank's forecast and the outturn at April 2022 but remained above the inflation target of 4.0 per cent to 6.0 per cent. The deceleration in inflation at May 2022, relative to April 2022, reflected a decline in energy prices due to the government subsidy applied to electricity bills and lower prices for vegetables. Based on discussions with RADA, it was further noted that an adequate supply of vegetables and tubers is expected in the coming months as weather conditions remain accommodative.
- ii. Core inflation remained elevated but was generally in line with forecast, and was expected to moderate over the next two years. At May 2022, the consumer price index measure that excluded fuel and food prices was 9.7 per cent in May 2022.
- iii. At April 2022, the Jamaican Producer Price Index (PPI), which measures producers' selling prices, rose at an annual rate of 23.4 per cent. This rate of increase mainly represented higher costs for raw materials.
- iv. One-year-ahead inflation expectations, measured by a survey of Jamaican businesses in April 2022, rose to 12.8 per cent from 12.1 per cent in March 2022 and was above the Bank's forecast. The Bank's high-

frequency estimate of inflation expectations also suggested an acceleration at April 2022. Imported inflation continues to rank as the main factor influencing inflation expectations.

- v. For April and May 2022, average WTI oil prices of US\$101.90 per bbl and US\$109.52 per bbl were lower than the Bank's forecast of US\$110.40 per bbl and US\$112.64 per bbl, respectively. However, LNG prices trended above projections due to concerns about a decline in US stockpiles as a result of an increase in exports to the European market and higher demand in the context of extremely high temperatures.
- vi. Average grains prices tracked in line with the Bank's forecast at May 2022. Notably, wheat prices trended above the Bank's forecast, while corn and soybean prices have trended lower than projected.

Recommendation

4.1.14 Based on the foregoing assessment, 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 continue to manage Jamaican dollar liquidity and the foreign exchange market proactively.

4.2 Financial Market Update and Short-Term Outlook

4.2.1 Mr. Taffi Bryson, Head of the Market Operations and Analysis Department, presented recent developments in the financial markets and provided a short-term outlook for conditions in the money and foreign exchange markets. He highlighted that liquidity conditions during May 2022 remained tight and concentrated, relative to April 2022.

4.2.2 Against the background of the Bank's policy adjustment in May 2022 and higher inflation outturn for April 2022, private money market rates remained generally elevated in May 2022. In addition, the weighted average yield on the Bank's 30-day CD increased, while the average yields on the GOJ Treasury Bill auction for the 182-day and 91-day tenors declined in June 2022 by 34 bps and 29 bps, respectively, compared to May 2022. There was an increase in the appetite for these shorter tenor instruments given the attractiveness of their current returns and the anticipation of increases in the Banks' policy rate over ensuing months.

- 4.2.3 In terms of developments in the foreign exchange (FX) market, for the calendar year to 31 May 2022, the weighted average selling rate (WASR) appreciated by 0.2 per cent (J\$0.34), in contrast to a depreciation of 4.5 per cent for the period January to May 2021. Notably, the WASR appreciated by 0.1 per cent for May 2022, compared to an appreciation of 3.3 per cent for the corresponding month in 2021. This appreciation in May 2022 was mainly underpinned by US dollar liquidity support from the BOJ via B-FXITT and PSE sales of US\$60 million and US\$67 million, respectively. The appreciation in May was also influenced by a reduction in end-user sales during that month. In May, there was an increase in FX NOPs due primarily to net spot purchases, which outweighed forward sales during the month.
- 4.2.4 Concerning the near-term outlook, Jamaican dollar liquidity is expected to decline, primarily due to net absorption via GOJ operations related to end-quarter taxes. Contingent on market conditions and in coordination with the GOJ, liquidity would remain tight.

4.3 Discussion

- 4.3.1 The MPC engaged in the following discussions after the presentations:
- 4.3.1.1 The MPC endorsed the project on deposit account and credit portability but expressed the need for urgency to the Bank's efforts to address structural issues in the Jamaican financial system and monetary policy transmission mechanism. Digitisation of financial services was stated as an essential element that would support the initiative to increase portability. The Committee noted that it was committed to addressing structural issues that impact the transmission process and recommended that the Bank identify, prioritise and coordinate efforts to resolving these impediments.
- 4.3.1.2 With regard to the neutral rate, the MPC supported its use as an indicative guide for monetary policy.
- 4.3.1.3 The MPC noted that interest rates on bank deposits and loans have started to adjust upwards and requested that these adjustments' impact on economic activity be monitored closely.
- 4.3.1.4 The MPC expressed its satisfaction with the stability of the foreign exchange market but stressed the importance of adjusting interest rates upwards to restrain demand and curb inflation further.

4.3.1.5 In relation to the policy rate adjustment by the US Federal Reserve, the MPC viewed this action as a positive one. It was noted that the increase in US interest rates signalled the Fed's commitment to curbing inflation in the US, which would have positive spillover effects for Jamaica. However, the aggressive monetary policy posture by the Fed could induce private capital outflows from Jamaica if domestic monetary conditions are not correctly aligned. The MPC requested that developments in this area be monitored closely.

4.3.2 Following the discussions, the meeting ended on 27 June 2022 at 11:36 a.m.

THE COMMITTEE RECONVENED ON 28 June 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 27 and 28 June 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 5.50 per cent and (ii) continue to pursue other measures to contain Jamaican dollar liquidity expansion and maintain relative stability in the foreign exchange market.

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

6.0 Summary of Decisions and Press Release 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.

6.3 Pursuant to section 34FF(5) to (7) of the Bank of Jamaica Act, which addresses the reporting of misses in the inflation target, the Committee also reviewed the

reports to the Minister on the breach of the inflation target over the period February to May 2022.

6.4 The documents, as revised, were **approved**.

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 June 2022 at 10:11 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 5.50 per cent and accompanying measures	APPROVED- Meeting of 28 June 2022
2.	Summary of Monetary Policy Discussion and Decision-June 2022	APPROVED-subject to amendments agreed on at the meeting of 28 June 2022
3.	Monetary Policy Press Release-June 2022	APPROVED-subject to amendments agreed on at the meeting of 28 June 2022
4.	Report to Minister on Missed Inflation Target – February to May 2022	APPROVED-subject to amendments agreed on at the meeting of 28 June 2022