



**BANK OF JAMAICA**

**MINUTES OF THE  
MONETARY POLICY COMMITTEE MEETINGS  
HELD VIRTUALLY**

**ON**

**TUESDAY, 16 AUGUST 2022 AND WEDNESDAY, 17 AUGUST 2022**

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**Minutes of the Monetary Policy Committee (MPC) meeting held virtually on Tuesday, 16 August 2022 (Briefing Meeting) at 9:00 a.m. and Wednesday, 17 August 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:

Ms. Carey-Anne Williams	Division Chief, Research and Economic Programming Division (REPD)
Mrs. Sharon Miller-Betty*	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
Ms. Shannon Spencer	Monetary Policy Committee Secretary

\* *In attendance at the 16 August 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** 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 July 2022 were confirmed on a motion moved by Mr. David Marston, seconded by Dr. Nadine McCloud.

## **3.0 Matters Arising**

### **3.1 Inflation Expectations Survey: Price-setting behaviour module**

**3.1.1** Mrs. Sharon Miller-Betty, Deputy Division Chief, presented the preliminary results of a survey on the price-setting behaviour of firms in Jamaica. The survey's main objective was to better understand the factors that contributed to a firm's decision to change its prices and clarify the role of expectations in this price-setting process. The survey was conducted from 06 June to 13 July 2022, and 110 respondents participated. The respondents included firms that operated in the services industry and the production/supply of durable goods.

**3.1.2** More than 50 per cent of the respondents to the survey indicated that they were aware of more than 20 competitors in their segment of the industry. This implied that they may not be able to adjust prices easily compared to firms that operate in less competitive market structures.

**3.1.3** The respondents typically adjusted their prices on a quarterly or annual basis. Given the frequency at which prices were set, there may be a lag in passing on input cost increases to the consumer. The survey also highlighted the exchange rate as a dominant factor influencing the respondent's decisions to change prices over the last two years, and to change prices in the future. Other factors affecting pricing decisions included changes in the cost of raw materials and other inputs, demand for the product and the level of profits. The survey indicated that changes in interest rates and tax rates were the least important factors behind pricing decisions. The survey also indicated that 83 per cent of the respondents had not reduced their prices over the past five years, possibly related to changes in the main factors that affected their pricing decisions.

**3.1.4** The final results of the survey will be compiled later and the implications of the findings will be presented to the MPC.

## **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. Ms. Carey-Anne Williams, Division Chief of the Research and

Economic Programming Division, presented the Bank's macroeconomic projections, risks and monetary policy recommendations.

- 4.1.2 Jamaica's annual point-to-point inflation rate peaked in April 2022 at 11.8 per cent, which was lower and earlier than expected. Conditional on maintaining relatively tight monetary policy, a deceleration in imported inflation and a moderation in inflation expectations, inflation is projected to fall within the Bank's 4.0 to 6.0 per cent target range by the December 2023 quarter. Headline inflation is forecasted to fall between 6.0 and 8.0 per cent over the next two years, compared to the previously projected 7.0 per cent to 9.0 per cent range, due to lower grain prices and a less depreciated exchange rate. Core inflation, the consumer price index measure that excludes fuel and food prices, is also anticipated to moderate in this context. At June 2022, core inflation was 8.7 per cent, down from the peak of 9.9 per cent recorded at February 2022.
- 4.1.3 The latest survey data on businesses' inflation expectations in June 2022 indicated that businesses' inflation expectations over the next 12 months moved up marginally to 13.1 per cent, from the 12.8 per cent reported in the last survey. Bank of Jamaica projects that businesses' expectation of inflation will moderate consequent on the Bank's monetary policy actions and a fall in commodity prices.
- 4.1.4 A separate survey on consumer inflation expectations showed that close to 90 per cent of the respondents reported that prices increased significantly over the past year. Similarly, many respondents felt that prices would continue to rise over the next year at a faster pace. The majority of the respondents reported that past changes in prices and in the exchange rate were the major factors driving their views about future price increases.
- 4.1.5 Average grains prices (corn, wheat, soybean) for the June 2022 quarter increased by 12.2 per cent, compared to the March 2022 quarter, but this increase was below the Bank's projection. The increase in grain prices continued to reflect the ongoing conflict between Russia and the Ukraine. Given the changes in the demand and supply conditions in the markets, the projections for grains prices over the next two years were revised downwards, relative to the previous forecast. Crude oil prices are also projected to decelerate from the peak in the June 2022 quarter to an average of US\$93.56 per barrel over the next eight quarters, which is lower than the previous forecasted average. This projection is predicated on a slowdown in global growth as monetary policy among the major economies tightens. LNG prices are, however, projected to remain relatively high, underpinned by strong demand.

- 4.1.6 The MPC was informed that the risks to the inflation forecast were balanced (which means that actual inflation could be in line with the projection).
- 4.1.7 Real GDP growth for the fiscal year (FY)2022/23 is projected in the range of 2.5 to 4.5 per cent, a deceleration relative to the growth of 8.2 per cent for FY2021/22. Relative to the previous forecast, the revised projections for real GDP growth were higher for FY2022/23 but lower for FY2023/24. The higher growth outlook for FY2022/23 is primarily influenced by a stronger than anticipated recovery in Tourism & related services and Agriculture.
- 4.1.8 Supported by leading indicators, the Bank's staff estimated real GDP growth for the June 2022 quarter in the range of 3.0 to 5.0 per cent and noted signs that the economy continued to expand in the September 2022 quarter. A rebound in several industries underpins the estimated growth for the two quarters.
- 4.1.9 Global economic growth over the next two years (September 2022 to June 2024 quarters) is projected to average 2.2 per cent, lower than the average of 2.4 per cent previously forecasted. This outlook for global growth reflects persistent inflationary pressures amid ongoing geopolitical tensions between Russia and Ukraine, and more aggressive monetary policy tightening by some of the major central banks. While easing, supply constraints remain elevated in some countries and are expected to maintain upward pressure on inflation. Output in the US is projected to contract by 0.7 per cent for the September 2022 quarter but to grow by 1.1 per cent for December 2022 quarter. US inflation is projected to be more elevated over the next eight quarters, relative to the previous forecast but is expected to fall sharply thereafter. In the context of the above target US inflation, the Bank anticipates that the Fed will raise interest rates by a further 100 bps in 2022 and by 50 bps in 2023.
- 4.1.10 Over the next eight quarters, the differential between US interest rates and domestic rates is projected to become less negative due to the expected increase in interest rates in the US. The monetary policy recommendation to be tabled by the staff to the MPC was designed to ensure that this differential remains above expected changes in the domestic exchange rate.
- 4.1.11 Over the next two years, the current account deficit (CAD) of Jamaica's balance of payments is projected to deteriorate relative to the previous forecast. This projected deterioration is due to increases in the merchandise trade deficit and a deterioration in the services sub-account, partly offset by improvements in the current transfers and the income sub-accounts.

- 4.1.12 The Bank's gross reserves are anticipated to be higher relative to the previous forecast over the next two years, but lower over the medium term, while remaining adequate.
- 4.1.13 A survey of the banking sector's response to the changes in the Bank's monetary policy stance was presented. It was highlighted that commercial banks' interest rates on new loans to medium and large businesses and interest rates on new deposits continued to increase during the June 2022 quarter, albeit weaker than expected.
- 4.1.14 The MPC was presented with the results of four macroeconomic scenarios. The first scenario simulated the impact of a more depreciated nominal exchange rate relative to the baseline forecast. The second scenario simulated holding the policy rate unchanged for four additional quarters. The third scenario simulated a shock to oil prices over the near term due to additional sanctions on Russia and a stronger than anticipated fall-off in global oil supply amid energy rationing in Europe and other countries. The last scenario simulated a stronger than anticipated impact of the recent Fed rate hikes on US demand conditions.
- 4.1.15 Based on 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.

## **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 for the markets. During July 2022, open market operations were implemented to ensure continued tight Jamaican dollar liquidity conditions.
- 4.2.2 For July 2022, money market rates remained generally elevated. Following the increase in the policy rate, effective 30 June, the interest rates on BOJ 30-day FR CDs increased, but yields for the 91-day, 182-day and 273-day GOJ treasury bills declined relative to the last auction. The decline in treasury bills yields in the July auction reflected aggressive bidding, given an increase in investor interest in the context of the now attractive yields.
- 4.2.3 In terms of GOJ's debt-raising activity, a new FR BIN 2053 instrument was issued on 15 July 2022. The bond was issued at par with a coupon of 11.75 per cent and an unlimited offer. Allotments were dominated by insurance companies, followed by primary dealers, who collectively received 49.2 per cent and 22.9 per cent,

respectively. In light of the tight Jamaican dollar liquidity conditions, among other factors at the time of the offer, investor appetite for the instrument was fairly healthy and J\$10.9 billion was raised.

- 4.2.4 At end-July 2022, the GOJ secondary market yield curve reflected a slight flattening relative to end-June 2022. This pattern was partly influenced by an uptick in domestic inflation expectations over the short to medium term. However, in the long-term, expectations are that inflation will decline. Notably, the increase in GOJ secondary market yields has not been commensurate with the relatively stronger increases in yields on short-term securities in the money market.
- 4.2.5 The foreign exchange market continued to reflect stability. For the calendar year to 29 July 2022, the weighted average selling rate (WASR) appreciated by 0.9 per cent compared to a depreciation of 7.7 per cent for the corresponding period in 2021. Notably, the WASR for July 2022 depreciated at an annual rate of 1.4 per cent, relative to a depreciation of 3.9 per cent for the same measure of the exchange rate in July 2021. The pace of depreciation in the exchange rate for July was tempered by US dollar liquidity support from BOJ sales via B-FXITT and PSE Facility.
- 4.2.6 Foreign exchange forward market activity for the USD/JMD currency pair reflected net sales for July 2022, relative to net purchases the previous month.
- 4.2.7 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 response from the Bank's survey of price setting behaviour that interest rates do not play a major role in the price-setting process of firms, based on the reported low weight of interest rates in the cost structure of firms. The MPC also noted that some firms appeared to pass on higher prices to consumers without seeking to change their level of productivity. In relation to the staff's conclusion that firms in industries with more than 20 other firms may not be able to adjust prices easily, the MPC noted that these decisions more depended on the market power of selected firms in the industry and less on the number of players. One member of the MPC expressed the view that the survey should include more domestic firms that are characterised as price makers.



- 4.3.2 In terms of labour market conditions, the MPC expressed concern about elevated inflation expectations and signs of emerging pressures for wage increases and noted that, left unaddressed, this could have a material impact on inflation. It noted that reported labour shortages in selected sectors of the economy and pressures from the acceleration in domestic inflation carry the potential for future wage adjustments to exceed that required for the consolidation of inflation.
- 4.3.3 The MPC also discussed the outlook for interest rate differentials between US and Jamaica. Committee members reiterated that the interest rate differential would have to fall within a particular range to maintain the attractiveness of domestic financial instruments, relative to foreign assets, thus mitigating any incentive for private capital outflows and, by extension, foreign exchange market instability.
- 4.3.4 The MPC highlighted the key role that the use of the reserves have played in managing the exchange rate and, by extension, the fight against inflation. The Committee noted that it would continue closely monitoring the reserves to ensure they remain at adequate levels.
- 4.3.5 The MPC also briefly discussed the effectiveness of its policy actions. Recent data show that private sector credit provided by deposit-taking institutions to the business sector continued to grow slowly. The Committee discussed that BOJ's policy actions had some influence on the sector but noted that the current sluggishness in growth was more related to the lagged effects of the pandemic.
- 4.3.6 Following the presentations and discussion, the MPC stressed the importance of effective communication in guiding inflation expectations. The Committee expressed how critical it was to signal to the public that, while peaking earlier and lower than expected in April 2022, and having fallen marginally to July 2022, the conditions that led to the recent inflation outturns appear to have not sufficiently solidified to ensure that inflation was sustainably on a downward path. It also reiterated its concerns about inflation expectations and the faster monetary adjustment programme among the advanced economies central banks.
- 4.3.7 Following the discussions, the meeting ended on 16 August 2022 at 12:02 p.m.

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

### 5.0 **Monetary Policy Decision**

5.1 On 17 August 2022, the Committee accepted the staff's forecast and assessment of risks and noted its policy recommendations.

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 The Committee **unanimously** voted in favour of the proposed package of measures. Additionally, the MPC noted that the Bank's continued strong international reserves reinforce its ability to support the foreign exchange market as needed. The Committee expressed that it will continue to monitor the global and domestic economic environment closely and is prepared to pause its monetary policy tightening if the incoming data met its expectations for a sustained downward track for inflation.

### 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 June 2022 quarter; and (iv) Monetary Policy Statement to the Minister/Standing Finance Committee (SFC).

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 June 2022 quarter; and (iv) Monetary Policy Statement to the Minister/SFC.

### 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 August 2022 at 10:22 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 July 2022	<b>APPROVED- Meeting of 16 August 2022</b>
2.	Agreement by MPC to increase the Policy Rate by 50 bps to 6.00% and accompanying measures	<b>APPROVED- Meeting of 16 August 2022</b>
3.	Summary of Monetary Policy Discussion and Decision-August 2022	<b>APPROVED on 17 August 2022 subject to amendments agreed on at the meeting of 17 August 2022</b>
4.	Monetary Policy Press Release- August 2022	<b>APPROVED subject to amendments agreed on at the meeting of 17 August 2022</b>
5.	Quarterly Monetary Policy Report - August 2022	<b>APPROVED on 17 August 2022.</b>
6.	Monetary Policy Statement to Minister/SFC- August 2022	<b>APPROVED subject to amendments agreed on at the meeting of 17 August 2022</b>