



**BANK OF JAMAICA**

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

**ON**

**TUESDAY, 27 SEPTEMBER 2022 AND WEDNESDAY, 28 SEPTEMBER 2022**

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**Minutes of the Monetary Policy Committee (MPC) meetings held virtually on Tuesday, 27 September 2022 (Briefing Meeting) at 1:00 p.m. and Wednesday, 28 September 2022 (Decision/Communication Meeting) at 1:00 p.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*	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
Ms. Shannon Spencer	Monetary Policy Committee Secretary

\* *In attendance at the 27 September 2022 MPC meeting only*

\*\* *In attendance at the 28 September 2022 MPC meeting only*

### **1.0 Call to Order and Apologies**

- 1.1** The Chairman called the meeting to order and welcomed the members and attendees. There were no apologies for absence.

## **2.0 Confirmation of Minutes of Previous Meetings**

**2.1** The minutes of the MPC's Minutes Approval meeting held on 06 September 2022 were confirmed on a motion moved by Mr. David Marston, seconded by Dr. Nadine McCloud.

**2.2** The minutes of the Special MPC meeting held on 14 September 2022 were confirmed on a motion moved by Mr. David Marston and seconded by Dr. Wayne Robinson.

## **3.0 Matters Arising**

### **3.1 Review of Existing Studies on the Credit Channel in Jamaica**

3.1.1 Ms. Carey-Anne Williams, Division Chief of REPD, presented a literature review on Jamaica's monetary policy transmission mechanism. This action item emerged from a request of the MPC for the Bank to identify measures to improve the credit channel.

3.1.2 Research examining Jamaica's monetary policy transmission mechanism between 1994 and 2022 suggested that the maximum impact on deposit rates of a 1.0 percentage points (ppt) increase in the Bank's policy rate ranged between 0.40 ppt and 0.87 ppt. The maximum impact on lending rates of a 1.0 ppt increase in the Bank's policy rate ranged between 0.28 ppt and 0.97 ppt. The effect of the same shock on the exchange rate was immediate and more significant relative to the credit channel. The review also indicated that a positive unit shock to the policy rate results in a decline in inflation, which ranged between 0.1 ppt to 0.4 ppt within 2 to 9 months.

3.1.3 For the current tightening cycle (between end-September 2021 and end-July 2022), the pass-through appeared weaker than that in the empirical review. The pass-through of policy rate increases to bank's weighted average deposit rates (demand, savings and time) was just 0.07 ppt. This response was primarily related to time deposit rates, which reflected a pass-through of 0.32 ppt. Banks' prime lending rates were higher on average by 109.9 bps at end-July 2022, relative to the rates at end-September 2021. In a context where the policy rate increased by 500 basis points (bps) between end-September 2021 and end-July 2022, this implied a pass-through of 0.22 ppt, again lower than that suggested by the literature on Jamaica's recent experience.

3.1.4 The weak monetary policy transmission mechanism can be attributed to several factors relating to the characteristics of the banking sector, including (i) limited competition for deposits, (ii) uneven liquidity, (iii) high dollarisation, and (iv)

information asymmetry. The pass-through may have become relatively weaker because of (i) the type of monetary policy shock, in that pass-throughs are generally weaker during monetary tightening cycles relative to easing cycles, (ii) uncertainty about the tightening cycle, (iii) excess liquidity at the start of tightening cycle and increased concentration of liquidity due to the pandemic, and (iv) attempts by banks to minimise the risk of their loan portfolios becoming non-performing in a context where their customer's balance sheets were weakened by the effects of the COVID-19 pandemic.

3.1.5 The Bank staff highlighted that some policy tools that could be considered to strengthen the monetary policy transmission channel included (i) addressing the uneven excess liquidity in the system, (ii) stimulating greater competition through measures to enhance deposit and credit portability, (iii) measures to reduce dollarization, and (iv) fiat-based measures such as the prescription of a minimum savings/deposit rate for deposit-taking institutions (DTIs). For the last item, it was noted that section 33(a) of the Bank of Jamaica Act gives BOJ the power to make this type of prescription, after consultation with the Minister.

## **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 August 2022 macroeconomic projections and the staff's recommendations for monetary policy, was tabled by Mrs. Sharon Miller-Betty, Deputy Division Chief of REPD.

#### **August 2022 Macroeconomic Projections**

4.1.2 In August 2022, the Bank's staff had projected that headline inflation would average 6.5 to 7.5 per cent over the next two (2) years (September 2022 to June 2024 quarters). In the absence of new shocks, inflation had been projected to stabilise between 9.0 to 11.0 per cent for the remainder of 2022 and fall to single digits in early 2023. This forecast had assumed, among others, that international commodity prices (grains and energy prices) would fall over the forecast horizon and that the exchange rate would depreciate at a relatively slow pace. Additionally, the forecast had anticipated that the public's expectation for future inflation would begin to fall in the second half of 2022, consistent with the projection for a decline in international commodity prices.

4.1.3 Continued growth in domestic demand had been expected over the next two years, mainly driven by normalisation in economic activity. At the August 2022

forecast round, the Bank had projected recovery in domestic economic activity for fiscal year (FY) 2022/23 in the range of 2.5 per cent to 4.5 per cent.

- 4.1.4 Over the next two years, growth for the global economy had been projected to slow due to weaker demand and heightened inflation. Similarly, growth of the US economy was projected to decelerate over the next two years.
- 4.1.5 A tightening of monetary conditions had been projected over the next two years. Nominal market interest rates had been projected to converge to the neutral nominal rate over the medium term. The Bank had projected the exchange rate to fall below equilibrium over the near term but to also converge with the equilibrium rate in the medium term.
- 4.1.6 The current account of Jamaica's balance of payments had been projected to deteriorate over the next two years. This projection reflected a worsened goods balance and a deterioration in current transfers, partially offset by improved services and income sub-accounts.
- 4.1.7 The gross international reserves (GIR) had been projected to remain adequate. At March 2023 and March 2028, the GIR had been forecasted to be 118.4 per cent and 110.4 per cent, respectively, of the IMF's Assessing Reserve Adequacy (ARA) metric.

### **Monetary Policy Effectiveness**

- 4.1.8 In the wake of the MPC's continued monetary policy adjustments, an informal survey of five commercial banks during September 2022 indicated that interest rates on new bank deposits and loans in Jamaica continued to adjust upwards, albeit marginally.
- 4.1.9 However, the policy measures contributed to stability in the foreign exchange market and a tightening of liquidity for the September 2022 quarter.
- 4.1.10 The private sector's deposit dollarisation ratio at July 2022 was 43.0 per cent, relatively similar to January 2022. There are also indications that the ratio will improve as total foreign exchange (FX) deposits declined by 4.5 per cent in July 2022, primarily driven by a reduction of 10.3 per cent in large corporation deposits.

### **Recent Developments and Risk Assessment**

- 4.1.11 Global growth was generally lower than forecasted for the June 2022 quarter. Growth in several major economies, such as Japan and China, was lower than

projected, while the US and the UK experienced lower-than-expected contractions. The lower-than-expected contraction in US GDP for the quarter reflected upward revisions to consumer spending and private investment. Leading indicators of US GDP suggested that economic activity could slow further over the ensuing months. The risks to the Bank's global growth outlook are skewed to the downside.

4.1.12 For July and August 2022, average WTI crude oil prices of US\$99.80 per bbl. and US\$91.50 per bbl. were lower than the Bank's forecast of US\$102.70 per bbl. and US\$102.20 per bbl., respectively. However, LNG prices trended above projections over the same period.

4.1.13 The average price of grains trended below the Bank's forecast at July 2022. This was due to growing concerns about the slowing global economy, an appreciation of the US dollar, a resumption of grain shipment from Ukraine and improved weather conditions in key growing areas in the US. Notwithstanding, grains prices were impacted by hot and dry weather conditions in Europe and China. Notably, the risks to average grains prices are skewed to the downside.

4.1.14 Inflation among Jamaica's main trading partners at July 2022 was marginally below the Bank's projection. Notably, inflation in the US was 8.3 per cent at August 2022, compared to the Bank's prediction of 8.5 per cent. The risks to trading partners' inflation are skewed to the downside due to lower grains prices and a gradual easing of supply chain constraints. Notwithstanding, some upward price pressures may stem from energy rationing in Europe, at least between the end of 2022 and early 2023.

4.1.15 At its September 2022 meeting, the US Federal Reserve (Fed) increased the target for interest rates by 75 basis points (bps), which was higher than the Bank's forecast. The Fed also signalled that rates would be increased by more than it had earlier indicated. In this regard, the interest rate differential (the difference between domestic money market rates and those in the US) worsened relative to the August 2022 forecast.

4.1.16 An assessment of leading indicators for domestic real GDP growth supports stronger-than-expected expansion for the September 2022 quarter. For August 2022, preliminary estimates of visitor arrivals were higher than the Bank's projection and above pre-COVID-19 levels. Remittances also declined slower than expected. The risks to the domestic GDP forecast were nonetheless balanced.

4.1.17 The risks to the Bank's inflation forecast are also balanced in the context of the following considerations:

- i. Annual inflation at August 2022 was 10.2 per cent, similar to the outturn in July 2022 but slightly below the Bank's projection of 10.4 per cent. The outturn primarily reflected upward movements in the Food and Non-Alcoholic Beverages, Transport and Restaurants and Accommodations Services indices. The increase in *Food and Non-Alcoholic Beverages* was largely attributable to higher prices for *Cereal and Cereal Products* and *Meat and Other Animals Parts*, reflecting the lagged impact of international commodity prices on these items. The average inflation rate over the next eight quarters is projected to be lower than the average rate forecasted at the August forecast round.
- ii. Core inflation at August 2022 (the measure that excludes fuel and food prices) increased marginally to 8.3 per cent from 8.2 per cent in July 2022 but was still expected to fall over the next two years.
- iii. The Jamaican Producer Price Index (PPI), which measures producers' selling prices, remained high but had shown signs of moderation. At July 2022, the PPI rose at an annual rate of 21.7 per cent compared with 24.9 per cent and 24.3 per cent recorded at June and May 2022, respectively.
- iv. Inflation expectations had also begun to fall but remain elevated. One-year-ahead inflation expectations for July 2022, measured by a survey of Jamaican businesses, declined to 12.6 per cent from 13.1 per cent for June 2022 and was below the Bank's forecast. Imported inflation continued to rank as the main factor influencing inflation expectations based on the August survey. Inflation expectations were expected to continue on a downward trend as import prices fall and the exchange rate remains stable.
- v. The rate of change in private sector wages also appeared to have accelerated. At August 2022, the annual change in the Bank's wage index, derived from a module in the Bank's inflation expectations survey, increased by 16.0 per cent, compared with 13.9 per cent at the previous survey (at June 2022).

### **Recommendation**

4.1.18 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.
- 4.2.2 Against the Bank's policy adjustment in August 2022, private money market rates remained generally elevated in August 2022. In addition, the weighted average yield on the Bank's 30-day CD increased, but the average yields on the GOJ Treasury Bill auction had mixed outturns. Liquidity during August 2022 was also more concentrated relative to the previous month.
- 4.2.3 During August, a BOJ 7.50 per cent 2-year FR CD was offered. The offer amount was J\$6.0 billion and closed with a weighted average yield of 8.95 per cent. Allotments were dominated by primary dealers, followed by commercial banks, who received 47.5 per cent and 15.2 per cent, respectively. Investor appetite for the instrument was buoyant, as reflected in an oversubscription of 109.3 per cent.
- 4.2.4 At end-August 2022, the GOJ secondary market yield curve reflected general stability relative to end-July 2022. This pattern was evidenced by the longer end of the curve remaining generally stable while the yields of the shorter end fell slightly. Notably, the pace of 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 In terms of developments in the FX market, for the calendar year to 31 August 2022, the weighted average selling rate (WASR) appreciated by 2.3 per cent (J\$3.49), in contrast to a depreciation of 6.2 per cent for the period January to August 2021. The WASR appreciated by 1.4 per cent for August 2022, compared to an appreciation of 1.6 per cent for the corresponding month in 2021. The appreciation in August 2022 reflected subdued demand following US dollar liquidity support from the BOJ via B-FXITT auctions in July 2022. Additionally, the August appreciation stemmed from one deposit-taking institution's portfolio adjustments.

- 4.2.6 In August 2022, there was a monthly decline in FX NOPs to a short position of US\$32.8 million, due primarily to net spot sales by authorised dealers, in contrast to net spot purchases in July 2022. With regard to the forward market in August, buy and sell transactions totalled US\$12.0 million and US\$17.03 million in the USD/JMD currency pair, respectively. The net sale reflected transactions with clients from the Finance and Insurance sector (US\$10 million in sales) and with Other Local Clients (US\$7.03 million in sales).
- 4.2.7 Concerning the near-term outlook, Jamaican dollar liquidity is expected to remain relatively in line with the level at August 2022. Notwithstanding, liquidity is expected to remain concentrated and skewed to the shorter end of the curve, given end-quarter tax commitments. In terms of the FX market, end-September tax commitments and BOJ's intervention should temper depreciation pressures for September. Generally, the December 2022 quarter is expected to be influenced by the usual seasonal FX demand increase from several sectors. In this regard, the Bank will continue to ensure that orderly market conditions prevail.

### **4.3 Discussion**

- 4.3.1 The MPC engaged in the following discussions after the presentations:
- 4.3.1.1 The MPC welcomed the review results of Jamaica's monetary policy transmission mechanism. To ensure that individual depositors are encouraged to continue to save Jamaican dollars, the MPC requested that in-depth research be undertaken around measures to support upward movements in DTIs' deposit rates.
- 4.3.1.2 The MPC also noted the issue of excess liquidity in the financial system and reiterated that, as part of the strategy to improve the monetary policy transmission mechanism, more should be done to reduce this excess.
- 4.3.1.3 The MPC noted the staff's report that wage settlement appeared to reflect more significant pay increases in the private sector. It was pointed out that, against the background of the continued growth in the economy and existing labour shortages, labour market pressures carry the potential for future wage adjustments to exceed those required for inflation to return to the Bank's target range.
- 4.3.1.4 The Committee expressed some concern about the tightening cycle among the major central banks of the World. It noted that the US Federal

Reserve's more aggressive monetary policy stance could result in US dollar assets becoming more attractive relative to those denominated in Jamaican dollars. This could cause capital outflows, prompting a faster pace of exchange rate depreciation and, consequently, a derailment of the Bank's efforts to manage inflation.

4.3.1.5 The MPC expressed the view that the Bank's communication efforts should inform the public that the key drivers of inflation and other economic indicators were trending in the right direction but that conditions had not sufficiently solidified to ensure that inflation was sustainably on a downward path. The MPC indicated its wish to continue to monitor the global and domestic environment closely and implement the appropriate policy measures.

4.3.2 Following the discussions, the meeting ended on 27 September 2022 at 4:29 p.m.

## **THE COMMITTEE RECONVENED ON 28 September 2022 AT 1:00 p.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 September 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 6.50 per cent, (ii) continue to pursue other measures to contain Jamaican dollar liquidity expansion and maintain relative stability in the foreign exchange market, and (iii) to consider additional measures to support upward movements in DTIs' deposit rates.

**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** 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 Letters to the Minister on the breach of the inflation target over the period June to August 2022.

**6.3** The Committee requested that Bank staff revise the documents based on the recommended changes and recirculate them for approval 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 28 September 2022 at 2:38 p.m.

**SUMMARY OF APPROVALS/DECISIONS**

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

<b>ITEM NO.</b>	<b>DESCRIPTION</b>	<b>APPROVALS/DECISIONS</b>
1.	Agreement by MPC to increase the Policy Rate by 50 bps to 6.50 per cent and accompanying measures	<b>APPROVED-Meeting of 28 September 2022</b>
2.	Summary of Monetary Policy Discussion and Decision-September 2022	<b>APPROVED-subject to amendments agreed on at the meeting of 28 September 2022</b>
3.	Monetary Policy Press Release-September 2022	<b>APPROVED-subject to amendments agreed on at the meeting of 28 September 2022</b>
4.	Report to Minister on Missed Inflation Target – June to August 2022	<b>APPROVED-subject to amendments agreed on at the meeting of 28 September 2022</b>