



**BANK OF JAMAICA**

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

**ON**

**WEDNESDAY, 16 NOVEMBER 2022 AND THURSDAY, 17 NOVEMBER 2022**

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**Minutes of the Monetary Policy Committee (MPC) meetings held virtually on Wednesday, 16 November 2022 (Briefing Meeting) at 10:00 a.m. and Thursday, 17 November 2022 (Decision/Communication Meeting), at 8:30 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*	Director, Market Operations and Analysis Department
Mrs. Karelle Tyrell**	Head, Monetary Policy Communication Unit, REPD
Ms. Arlene Tomlinson	Senior Director, Board/Management Secretariat
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office/ Monetary Policy Committee Secretary

\* *In attendance at the 16 November 2022 MPC meeting only*

\*\* *In attendance at the 17 November 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 Minutes of Previous Meetings**

**2.1** The minutes of the MPC's Minutes Approval meeting held on 19 October 2022 were confirmed without amendments on a motion moved by Mr. David Marston, seconded by Dr. Nadine McCloud.

## **3.0 Matters Arising**

**3.1** There were no matters presented at this meeting.

**3.2** The status and timeline on several action items was submitted to the MPC.

## **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 October 2022 macroeconomic projections and the staff's recommendations for monetary policy, was tabled by Ms. Carey-Anne Williams, Division Chief of REPD.

### **Monetary Policy Effectiveness**

**4.1.2** The incoming data continued to point to a very limited pass through of past monetary policy adjustments to commercial bank rates. While Bank of Jamaica's policy rate increased by 600 basis points (bps) between end-September 2021 and end-September 2022, the weighted average deposit rate offered by banks to the public increased by just 51 bps. The principal contributor to the increase in deposit rates was time deposits, the weighted average rate of which increased by 158 bps over the period. For lending rates, while the prime rate for new business loans increased by 109 bps for the period, commercial bank's weighted average lending rate on outstanding balances fell by 11 bps. On the basis of the staff's informal survey of rates in the system, the same pattern of responsiveness appeared to continue in October 2022.

**4.1.3** Liquidity conditions for the September 2022 quarter remained tight, supported by Government of Jamaica (GOJ) operations. This contributed to a relatively stable exchange rate and a moderation in deposit dollarisation. Liquidity conditions for the December 2022 quarter were also expected to remain tight.

### **October 2022 Macroeconomic Projections**

**4.1.4** Data published by STATIN indicated that headline inflation at October 2022 was 9.9 per cent and reflected an uptick relative to September 2022. Core inflation (which excludes food and fuel prices) of 9.0 per cent was also higher than that for

September and suggested stronger second round effects emanating from the commodity price shock, relative to previous forecast.

- 4.1.5 The Bank's staff indicated that, consistent with global consensus forecasts for a fall in commodity prices and the Bank's overall monetary policy stance, and in the absence of any new shocks, headline inflation should trend towards the mid-point of the target range by the December 2023 quarter. In general, inflation was projected to average 6.7 per cent over the next two years, which was lower than the previous forecast. The forecast is predicated on the continuation of tight monetary policy, deceleration in imported inflation and base effects.
- 4.1.6 For imported inflation, the forecast assumed that international commodity prices (grains and energy prices) would fall over the forecast horizon. In addition, US inflation at October 2022 was 7.7 per cent, the smallest 12-month increase since January 2022. The outturn was below that for September 2022 and largely reflected a deceleration in the energy-related and food price inflation. The outlook for US inflation reflected the impact of relatively weaker demand conditions, albeit temporarily, over the near term that will drive inflation downward and lead to an end to the monetary policy tightening cycle in that jurisdiction in early 2023.
- 4.1.7 Core inflation was also projected to decelerate in the context of the Bank's monetary policy stance, complemented by reductions in inflation expectations, although there were some indications that labour market pressures were increasing. Domestic GDP growth over the next two years is also projected to be broadly unchanged relative to the Bank's previous forecast, although the outlook for selected sectors was revised. Growth over the next eight quarters primarily reflected continued normalization of economic activities.
- 4.1.8 The current account of the balance of payments is projected to improve over the near term relative to previous projections. This is evidenced by a lower deficit on the merchandise trade balance, an improvement in the services sub account and an upward revision over the near term in current transfers, partially offset by a deterioration of the income sub account.
- 4.1.9 The gross international reserves (GIR) is projected to be higher relative to previous forecast, remaining above the ARA metric. The higher reserves over the near term is underpinned by higher net private capital flows.

## Risk Assessment and Scenarios

- 4.1.10 The risks to the Bank's inflation forecast are balanced. The factors that could cause higher inflation include further supply chain disruptions and a spike in oil prices. On the downside, weaker than expected global growth could negatively impact domestic demand and imported inflation.
- 4.1.11 The staff presented scenarios to assess the risks to the inflation forecast, including the potential impact of higher oil prices, worsened external demand and higher than anticipated interest rates in the US.

## Recommendation

- 4.1.12 Based on the foregoing assessment, the staff recommended that the Bank further increase the policy rate by 25 bps and continue to proactively manage Jamaican dollar liquidity and the foreign exchange market.

## 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 background of the Bank's policy adjustment in September 2022, private money market rates generally increased in October 2022. In addition, the weighted average yield on the Bank's 30-day CD, as well as the yields on GOJ's Treasury Bills increased. Liquidity levels were managed in order to ensure a moderate pace of increase in yields and tight but adequate current account balances.
- 4.2.3 During October, the GOJ offered a FR 4.50 per cent BIN- Due 2025 and a FR 10.0 per cent BIN-Due 2037 with respective principals of J\$2.0 billion and J\$4.0 billion. The offers closed with a weighted average yield (WAY) on the two instruments of 9.07 per cent and 9.95 per cent, respectively. There was strong investor appetite for the instruments as evidenced by oversubscription rates of 66.8 per cent and 138.5 per cent for 2025 BIN and 2037 BIN, respectively. Primary Dealers dominated both auctions, while commercial banks received the highest yields.
- 4.2.4 As at 26 October, the average yield on the BOJ's 30-Day CD reflected an increase of 27 basis points to 7.68 per cent relative to end-September. This was partly influenced by the increase in the Bank's policy rate in September as well as the lower level of liquidity in October. Of note, the increase in the 30-Day yield mainly

occurred in the first three weeks of October. However, in the last auction in October, the WAY declined in the context of improved liquidity conditions.

- 4.2.5 At end-October 2022, the GOJ secondary market yield curve steepened relative to September, perhaps reflecting investors' expectations that inflation will remain elevated.
- 4.2.6 In terms of developments in the FX market, for the calendar year to 31 October 2022, the weighted average selling rate (WASR) appreciated by 0.62 per cent (J\$0.95), in contrast to a depreciation of 8.36 per cent for the period January to October 2021. The WASR depreciated by 0.86 per cent for the month of October 2022, compared to a depreciation of 5.71 per cent for the corresponding month in 2021. The depreciation for the month of October 2022 followed a 0.8 per cent depreciation in September and was mainly due to an uptick in seasonal demand. In an effort to maintain order in the market, BOJ augmented liquidity with US\$60 million and US\$90 million via B-FXITT auctions in September and October, respectively.
- 4.2.7 In October 2022, there was an overall increase in deposit-taking institutions' (DTIs) aggregate foreign exchange (FX) net open position (NOP) relative to September. The increase in FX NOPs was primarily due to net spot purchases during the month, in contrast to net spot sales in September 2022. The impact of the movement for the month of October was tempered by an increase in net forward sales.
- 4.2.8 In relation to the near-term outlook, liquidity in the Jamaica dollar money market is expected to remain tight but adequate in November. However, it is expected that liquidity will decline in December given the seasonal issue of currency as well as end-quarter tax obligations. Expectations are that the foreign exchange market will also reflect seasonal foreign exchange demand but these demand impulses are expected to wane in December.

### **4.3 Discussion**

- 4.3.1 The MPC engaged in the following discussions after the presentations:
  - 4.3.1.1 The MPC expressed concern about inflation at September 2022. It appeared that both core and headline inflation were reflecting downward stickiness. While the key external drivers of headline inflation, such as grains and shipping prices, continued to trend downwards, the full pass-through of these declines were not yet evident in domestic food

prices. Further, it appeared that there was some risk that core inflation will remain high for a protracted period if inflation expectations, second-round effects from the commodity price shocks and labour market pressures do not moderate.

4.3.1.2 The Committee noted that monetary tightening among Jamaica's main trading partners continued at a fast pace. This policy stance could cause capital outflows from Jamaica and a faster pace of exchange rate depreciation if domestic monetary policy is not aligned correctly.

4.3.1.3 The MPC indicated its belief that there was merit in adjusting the Bank's policy rate by more than that recommended by the staff but to signal a conditional pause in its monetary policy tightening cycle, subject to selected incoming data. In particular, the MPC expressed the need to continually monitor the decisions of the US Fed as well as the pass-through effect of interest rate increases on DTI's loan and deposit rates. In addition, in the context of the weakness in the credit channel of the monetary transmission mechanism, the committee urge the Bank's staff to continue to develop policy options aimed at improving the monetary transmission mechanism for its review.

4.3.2 Following the discussions, the meeting ended on 16 November 2022 at 12:38 p.m.

#### **THE COMMITTEE RECONVENED ON 17 November 2022 AT 8:30 a.m.:**

#### **5.0 Monetary Policy Decision**

**5.1** Based on the discussions on 16 and 17 November 2022, the Chairman invited the Committee to vote on the proposed package of measures that (i) the Bank increase the policy rate by 25 bps to 6.5 per cent and (ii) continue to pursue other measures to contain Jamaican dollar liquidity expansion and maintain relative stability in the foreign exchange market.

**5.2** The Committee accepted and adopted the staff's assessment of risks and its recommendations to continue to deploy policy measures under (ii) above. However, the committee confirmed its desire to increase the policy rate by 50 bps and voted **unanimously** for the amended 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 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 17 November 2022 at 9:30 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 7.00 per cent and accompanying measures	<b>APPROVED-Meeting of 17 November 2022</b>
2.	Summary of Monetary Policy Discussion and Decision-November 2022	<b>APPROVED-subject to amendments agreed on at the meeting of 17 November 2022</b>
3.	Monetary Policy Press Release-November 2022	<b>APPROVED-subject to amendments agreed on at the meeting of 17 November 2022</b>