



OFFICE OF THE MINISTER OF FINANCE AND THE PUBLIC SERVICE

March 8, 2023

Richard Byles
Governor
Bank of Jamaica
Nethersole Place
Kingston
Jamaica



Dear Governor Byles,

Response to MPC's Explanation of the Inflation Target Breaches for September 2022 to January 2023

Thank you for your letter of March 1, 2023 on behalf of the Monetary Policy Committee (MPC) outlining the reasons for headline inflation over the period September 2022 to January 2023 remaining above the Bank's target of 4.0 to 6.0 per cent. I agree with your explanation that the breaches of the target for the period primarily reflected the continued lagged impact of imported inflation, which continues to be influenced by the Russian-Ukraine conflict, recovery in domestic demand and by high inflation expectations.

I have noted your outlook that inflation will continue to decelerate in the context of the MPC's monetary policy actions and the downward trend in international commodity prices but that it will likely continue to breach the upper limit of the Bank's target range until the December 2023 quarter. Additionally, I acknowledge your assessment that inflation expectations are anticipated to continue moderating over the near term, which will help to reduce inflationary pressures. US inflation also continued to decelerate in line with expectations as a result of monetary tightening by the Federal Reserve (Fed) and I note that the slowdown in the pace of increase in US interest rates is consistent with the Bank's expectation.

I concur with your evaluation that while the incoming data has been generally favourable for the inflation outlook, the risks are skewed to the upside and elevated. The notable upside risks include labour market shortages and stronger-than-anticipated domestic demand. I also note that some deposit-taking institutions (DTIs) have made marginal adjustments to their deposit and lending rates. Against this background, I note the MPC's decision to increase the domestic and foreign currency cash reserve requirements for DTIs by one (1) percentage point to 6.0 per cent and 14.0 per cent, respectively, effective 01 April 2023 while maintaining the policy interest rate at 7.00 per cent.

I welcome the MPC's commitment to maintaining its posture in the money market and to maintaining relative stability in the foreign exchange market. In addition, I commend the MPC's commitment to closely monitor the global and domestic economic environment and to base its future decisions on incoming data. I am assured that the MPC will continue to carefully consider the trade-offs involved in these future decisions to reassure itself of the net welfare benefit of its policy actions.

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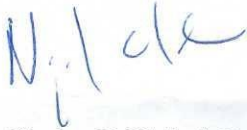
Richard Byles
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-2-

March 8, 2023

As a critical element of the Government's commitment to transparency and accountability concerning inflation targeting, I will make public a copy of my letter and your correspondence on the inflation breach via the website of the Ministry of Finance and the Public Service.

Yours sincerely,



Nigel Clarke, D.Phil., MP
Minister of Finance and the Public Service