GOVERNOR

BANK OF JAMAICA
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15 January 2026

The Honourable Fayval Williams, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
30 National Heroes Circle
Kingston 4

Dear Minister Williams:

Breach of Inflation Target

By letter dated 29 April 2024 from the Minister of Finance and the Public Service, Bank of Jamaica's (BOJ's) Monetary Policy Committee (MPC) was set a target range for annual inflation of 4.0 to 6.0 per cent over the next three years. Inflation is measured by the 12-month point-to-point percentage change in the Consumer Price Index (CPI) that is prepared and published by the Statistical Institute of Jamaica (STATIN).

This target became operational as of the April 2024 CPI outturn and applies continuously, that is, for each month over the next three years. The letter also stated that whenever inflation deviates from the target range, the MPC must explain the deviation within 60 days of publication of the outturn by STATIN. While a notification and full explanation are not required for each consecutive month in which inflation remains outside the target once an explanation has already been given, the Bank is nonetheless required to provide an update on the progress of inflation back to the target every third month of a deviation from the target.

In my previous correspondence to you on this matter, dated 01 September 2025, I indicated that inflation was projected to generally remain below the lower bound of the Bank's target during the September 2025 to March 2026 quarters before returning to the target range, and remaining there over the next two years. Our primary reasons at the time for these projected breaches were (i) falling agricultural prices, resulting from a rebound in domestic agricultural production following the impact on supply of adverse weather in 2024, and (ii) the impact on the electricity rate of a reduction in the General Consumption Tax (GCT) on electricity consumption. The Bank had also projected that the first-round impact of increases in tariffs by the United States (US) on prices in Jamaica would be marginal.

Since my last letter, which explained the breaches for June and July 2025, annual headline inflation recorded three consecutive monthly outturns below the target range. This triggered the obligation under the protocol, as set out in the MPC Charter and Inflation Targeting Operating Framework, to provide you with an update. In particular, annual headline inflation rates for August 2025, September 2025 and October 2025 were 1.2 per cent, 2.1 per cent and 2.9 per cent, respectively. Core inflation (which excludes the prices of agricultural food products and fuel from the CPI) averaged 4.0 per cent over the three-month period, which was lower than the average of 4.4 per cent for the same period in 2025.

.../2

Headline inflation breached the lower end of the target range during the period August to October 2025 due to the following temporary factors:

1. A decline in agricultural price inflation.
2. A moderation in imported inflation (particularly oil).
3. Moderating inflation expectations.
4. A reduction in the GCT on electricity consumption announced by the Government in March 2025, which began impacting the inflation outturn at June 2025.

The annual changes in agricultural prices (as measured by the Vegetables, tubers, plantains, cooking bananas and pulses sub-division of the CPI) between August and October 2025 averaged negative (-) 10.6 per cent. As projected by the Bank, these declines were consistent with the rebound in domestic agricultural production following the impact on supply of adverse weather in 2024.

In relation to oil prices, the average price of crude oil over the twelve months to September 2025 declined by 13.1 per cent, compared to the same measure at September 2024.

For inflation expectations, in the September 2025 Survey of Businesses' Inflation Expectations, respondents reduced their expectations for inflation 12 months ahead to 5.8 per cent, relative to 7.0 per cent in July 2025, and this represents the lowest level since the December 2019 survey.

Government policy measures also contributed to the deceleration in inflation over the period. In March 2025, the Government announced a reduction in taxes on consumer's electricity billing. The Bank estimates that these policy changes caused the CPI at June 2025 to fall by approximately 0.2 percentage point, the impact of which is expected to persist up to May 2026.

Headline inflation at November 2025, however, accelerated to 4.4 per cent, reflecting a return to the target range three months faster than previously anticipated. The jump in headline inflation, compared with October, was due mainly to higher unprocessed food prices, reflecting early signs of disruptions to the agriculture sector following the passage of Hurricane Melissa on 28 October 2025. In this regard, agricultural prices accelerated to an annual point-to-point increase of 9.3 per cent in November 2025. Inflation expectations also rose to 6.2 per cent in the November 2025 survey. Core inflation was 4.3 per cent at November 2025, which was above the outturn of 3.7 per cent at October 2025.

What is the Near-Term Path & the Attendant Risks for Inflation to Return to the Target?

Headline inflation is projected to rise sharply over the next six months to June 2026, from the 4.4 per cent at November 2025, and breach the upper limit of the inflation target range starting in early 2026 before moderating to the target range in early 2027. This rise in inflation primarily reflects the hurricane's impact on the major food-producing parishes, disruptions to supply chains (particularly in energy and agriculture) and the second-round effect on services and processed food inflation. In this context, the average inflation rate over the next two years (December 2025 to September 2027) is projected to rise to 7.4 per cent, relative to 4.9 per cent over the previous eight quarters.

Core inflation will also rise, reflecting another wave of price increase in other goods and services (e.g. those related to home repairs, meals from restaurants and personal care items) through second-round price effects. In this context, core inflation is projected to average 6.1 per cent over the next two years, compared with the average of 4.6 per cent over the previous two years. The higher core inflation will be supported by an anticipated surge in overall spending in the context of the rebuilding efforts, facilitated largely by external financing to the private and public sectors. Notably, in the aftermath of the hurricane,

.../3

Parliament suspended the fiscal rule for an initial period of one year. This will support the public sector's ability to increase spending for the recovery and relief effort. For the central government, in particular, larger fiscal deficits are projected over the next three fiscal years, compared with their previous projection.

The overall inflation projection assumes a mixed outlook for imported inflation (particularly grains and oil) and inflation expectations. West Texas Intermediate (WTI) prices are projected to decline gradually over the next two years, while liquefied natural gas (LNG) and grains prices are projected to increase moderately. WTI crude oil prices are projected to average US$60.02 per barrel between December 2025 and September 2027, implying an average quarter-over-quarter decline over the period of 1.0 per cent. This forecast is lower than the 8-quarter-ahead forecast outlined in my previous letter. However, the average price of grains is projected to increase at an average quarter-over-quarter rate of 0.5 per cent over the same period, which is in line with the forecast outlined in my previous letter.

The risks to the inflation outlook are skewed to the upside, with a greater likelihood of inflation being above projections. Higher inflation could result from higher-than-expected demand amidst the reconstruction efforts and from increased inflation expectations. A more protracted recovery in the agriculture sector and more prolonged disruptions to supply chains could worsen food price increases. There could also be long-term damage in specific industries, which could slow the improvement in the production and availability of supplies. Lower inflation could, however, result from a slower-than-anticipated recovery in domestic demand associated with income loss.

Bank of Jamaica's Policy Actions to Return Inflation to Target

At its policy meeting on 16 and 17 December 2025, the MPC noted that the impact of Hurricane Melissa on the economy was more pronounced than initially anticipated. As a result, the upside risk to inflation is greater, meaning that inflation could be higher than forecast. Against this background, the Committee decided unanimously to (i) hold the policy rate (the rate offered to deposit-taking institutions (DTIs) on their current account balances at BOJ) at 5.75 per cent per annum, and (ii) remain proactive in preserving relative stability in the foreign exchange market.

The decision to hold rates was made given the projection for inflation (both headline and core) to be above the target range in 2026. The Bank, therefore, positioned monetary policy to minimise the aforementioned second-round price increases and to constrain inflation expectations so that inflation would converge to the target range by early 2027.

The MPC reaffirmed its view that preserving a stable macroeconomic environment is essential to the country's recovery and reconstruction efforts. BOJ, therefore, remains committed to ensuring that the inflationary effects of the hurricane are managed to limit hardships on vulnerable groups and to facilitate the conditions necessary for long-term economic recovery. The Committee will continue to closely monitor the incoming data and maintain heightened surveillance of the second-round impact of higher food prices on core inflation. The MPC is prepared to adjust the stance of monetary policy and to take the necessary policy action, if the above-noted risks threaten the projected return of inflation to the target range in the shortest possible time.

Minister, we stand prepared to provide any clarification that may be required concerning this submission.

Yours sincerely,

Richard Byles