

27 November 2017

BANK OF JAMAICA'S MEDIUM-TERM INFLATION TARGET

In a significant step in Jamaica's economic reform programme, the Minister of Finance and the Public Service approved a continuous medium-term inflation target for Bank of Jamaica in September 2017. This replaced the customary annual fiscal year inflation target.

The medium-term inflation target for Bank of Jamaica is 4.0 per cent to 6.0 per cent.

This target will be subject to annual reviews by the Minister, at which time it may be adjusted if economic conditions warrant. The target is continuous over the medium term instead of only for the fiscal year because this allows the Bank to be evaluated on Jamaica's inflation rate at any time, not just at the end of a fiscal or calendar year.

The use of a target for inflation, in contrast to an inflation forecast, means that the central bank periodically adjusts the levers of monetary policy, most often the policy rate, to ensure that the target is achieved. In keeping with international best-practice for leading central banks in developing and developed economies, operating with a target automatically makes monetary policy more predictable, transparent and justifiable.

The medium-term inflation target was selected on the basis of Jamaica's current and prospective economic circumstances. Jamaica has already reduced inflation to relatively low levels while, in the context of recent fiscal and structural reforms, the economy is poised to enter a phase of higher GDP growth.

The establishment of a medium-term target allows the public to hold the Bank to account for the outcomes from implementing a forward-looking monetary policy strategy, given the known lags in the monetary transmission mechanism. The

medium-term inflation target is also more clearly harmonised with the projected outcomes of fiscal policy set out in the Government's Fiscal Policy Paper.