



The Governor

Bank of Jamaica
Nethersole Place
Kingston, Jamaica, W.I.

15 November 2021

Hon Dr Nigel Clarke, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
30 National Heroes Circle
Kingston 4

Dear Minister Clarke:

Breach of Inflation Target

By letter dated 16 April 2021, you set Bank of Jamaica's Monetary Policy Committee (MPC) a target range of 4.0 per cent to 6.0 per cent for annual inflation, as measured by the 12-month point-to-point percentage change in the Consumer Price Index (CPI) published by the Statistical Institute of Jamaica (STATIN), over the next three years. This target became operational as at April 2021 and will apply continuously, that is, for each month over the three-year period. In that same letter, you also indicated that whenever inflation deviates from the target, that is, rises above 6.0 per cent or falls below 4.0 per cent, the MPC is required to provide, within 60 days of the publication of the outturn by STATIN, an explanation for missing the target.

The annual inflation rates at August 2021 and September 2021 were 6.1 per cent and 8.2 per cent, respectively, above the upper limit of the Bank's target range. A report that includes an analysis of the outturn, a conditional outlook for inflation over the next two years and a description of the Bank's monetary policy actions and options for returning inflation to the target is enclosed. However, in brief, the higher outturns for headline inflation relative to the target primarily reflected (i) the lagged impact of higher international commodity prices, (ii) a recovery in domestic demand and (iii) heightened inflation expectations. There were also significant upward price impetuses from a shock to agricultural prices and an increase in regulated transportation fares.

The MPC's assessment is that inflation will continue to breach the upper limit of the Bank's target range over the next ten to twelve months. Conditional on the gradual tightening of monetary conditions, inflation is projected to return to the Bank's inflation target range by September 2022. Consequently, to limit the second-round effects of the shocks and to guide inflation back within the target range over the next two years, the MPC decided to reduce the level of monetary policy accommodation by increasing the policy rate to 1.50 per cent from the historic low of 0.5 per cent. The MPC also decided at its meetings on 11 and 12 November 2021 to further increase the policy rate to 2.00 per cent. Accompanying this rate increase, the Committee decided to maintain other measures to contain Jamaican dollar liquidity expansion

and reiterated that, while not targeting any specific level of the exchange rate, Bank of Jamaica will continue to ensure that movements in the exchange rate do not threaten the inflation target. Finally, the MPC agreed to consider further increases in the Bank's policy rate (and by extension raising real interest rates, which are currently significantly negative) and maintain or intensify the accompanying measures at subsequent policy meetings. This position is subject to inflation expectations, other macroeconomic data and, consequently, the inflation outlook evolving as projected.

This reduction in the level of monetary accommodation will cause market-based interest rates to rise further, which will make the returns on Jamaican dollar assets more attractive relative to foreign currency assets. It will also make saving in Jamaican dollars more attractive and borrowing in Jamaican dollars more expensive. These effects are intended to temper the demand for foreign currency and hence moderate the pace of depreciation in the exchange rate; and, generally, reduce demand in the economy and with it the ability of businesses to pass on price increases to consumers.

We stand prepared to provide any clarification that may be needed on the enclosed submission.

Yours sincerely,



Richard Byles

Enclosure