



*The Governor*

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

23 February 2022

Dr The Hon 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.

In a previous correspondence dated 15 November 2021, I indicated that inflation would continue to breach the upper limit of the Bank's target range over a protracted period (10 to 12 months). As published by the Statistical Institute of Jamaica, annual inflation at October and November 2021 were 8.5 per cent and 7.8 per cent, respectively, broadly in line with the Bank's previous forecast. Inflation for December 2021 and January 2022 continued to track above the Bank's target range but at higher rates than previously projected. 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 outturn for headline inflation relative to the target primarily reflected the impact of higher international commodity prices, improvements in domestic demand and heightened inflation expectations.

To continue limiting the second-round effects of the shocks and guiding inflation back within the target range over the next two years, the MPC unanimously agreed to further reduce the level of monetary policy accommodation by increasing the policy rate by 150 bps to 4.00 per cent. This decision does not entirely reverse the Bank's accommodative monetary

policy stance since August 2019. The Bank also decided to pursue more substantial measures to contain Jamaican dollar liquidity expansion and maintain stability in the foreign exchange market. Finally, consistent with meeting its inflation target sustainably in the medium term, the MPC agreed to consider maintaining or expanding its suite of measures at subsequent policy meetings. This position is subject to inflation, inflation expectations and other macroeconomic data evolving as projected.

Minister, we stand prepared to provide any clarification that may be needed on the enclosed submission.

Yours sincerely,



Richard Byles

Enclosure: