



OFFICE OF THE MINISTER OF FINANCE AND THE PUBLIC SERVICE

November 16, 2021

Mr. Richard Byles
Governor & Chairman of the Monetary Policy Committee
Bank of Jamaica
Nethersole Place
Kingston
Jamaica

Dear Governor Byles,

Response to MPC's Explanation of the Inflation Breach in August and September 2021

Thank you for your letter of 15 November 2021 on behalf of the Monetary Policy Committee (MPC) explaining why headline inflation of 6.1 per cent and 8.2 per cent in August 2021 and September 2021, respectively, were above the Bank's target of 4.0 per cent to 6.0 per cent. I agree with your explanation that the breaches of the target for the two months primarily reflected the lagged impact of higher international commodity prices, a recovery in domestic demand, heightened inflation expectations, a shock to agricultural prices and an increase in regulated transportation fares.

I have noted your outlook that inflation will continue to breach the upper limit of the Bank's target range over the next ten to twelve months and will peak in the range of 8.0 to 9.0 per cent over this period. If this outlook materialises, the Jamaican population will continue to face higher than desired increases in its cost of living over an extended period. I also note your view that, while the outlook is uncertain, the risks to the inflation forecast are skewed to the upside (which means inflation could be higher than projected). I understand that the shocks you described have the potential to lead to further increases in inflation expectations, which can influence higher inflation over a protracted period. In this regard, the reduction in the level of monetary accommodation by the MPC is noted. I also acknowledge the MPC's decision to consider further increases in the Bank's policy rate and maintain or intensify the accompanying measures at future policy meetings, subject to inflation expectations, other macroeconomic data and, consequently, the inflation outlook evolving as projected. I am sure that the Committee will continue to carefully consider the trade-offs involved in these future decisions to assure itself of the net welfare benefit of its policy actions.

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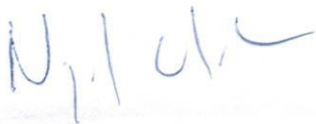
Mr. Richard Byles
Governor
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As a key element of the Government's commitment to transparency and accountability with respect to inflation targeting, I will make public a copy of my letter and your correspondence on the inflation breach on the Ministry of Finance and the Public Service's website and suggest that they also be placed on the Bank's website.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Nigel Clarke', is written over a horizontal line.

Hon Nigel Clarke, DPhil, MP
Minister of Finance and the Public Service