



BANK OF JAMAICA

**MINUTES OF THE
MONETARY POLICY COMMITTEE MEETINGS
HELD VIRTUALLY**

ON

FRIDAY, 16 DECEMBER 2022 AND MONDAY, 19 DECEMBER 2022

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Minutes of the Monetary Policy Committee (MPC) meetings held virtually on Friday, 16 December 2022 (Briefing Meeting) at 1:35 p.m. and Monday, 19 December 2022 (Decision/Communication Meeting) at 9:00 a.m. via Microsoft Teams Meeting.

Attendance

The following members of the Committee were present:

Mr. Richard Byles	Chairman
Dr. Wayne Robinson	Senior Deputy Governor
Mr. Robert Stennett	Deputy Governor
Dr. Nadine McCloud	Appointed Member, MPC
Mr. David Marston	Appointed Member, MPC

Other attendees:

Ms. Carey-Anne Williams	Division Chief, Research and Economic Programming Division (REPD)
Mrs. Sharon Miller-Betty	Deputy Division Chief, REPD
Mr. Taffi Bryson*	Director, Market Operations and Analysis Department
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Mrs. Karelle Tyrell**	Head, Monetary Policy Communication Unit, REPD
Ms. Arlene Tomlinson	Senior Director, Board/Management Secretariat
Mr. Huntley Medley	Senior Media and Public Relations Coordinator
Ms. Shannon Spencer	Monetary Policy Committee Secretary

* *In attendance at the 16 December 2022 MPC meeting only*

** *In attendance at the 19 December 2022 MPC meeting only*

1.0 Call to Order and Apologies

1.1 The Chairman called the meeting to order and welcomed the members and attendees.

1.2 An apology for absence was tendered for Mrs. Natalie Haynes, Deputy Governor.

2.0 Confirmation of Minutes of Previous Meetings

- 2.1** The minutes of the MPC's Minutes Approval meeting held on 07 December 2022 were confirmed on a motion moved by Mr. David Marston, seconded by Dr. Nadine McCloud.

3.0 Matters Arising

3.1 Time Series of Forward Market Rates

- 3.1.1 Head of the Market Operations and Analysis Department noted that the time series of forward market rates would be addressed during his presentation later in the meeting.

4.0 Governance Matters

4.1 Review of MPC Report to Board

- 4.1.1 The Committee Secretary presented for review and approval, the draft Monetary Policy Committee Report to the Board. Section 34FG(5) of the Bank of Jamaica Act states that the Board has oversight responsibility for the statutory committees of the Bank. In this regard, the MPC is required to submit a report to the Board in January and June each year. The draft report reviewed gave an overview of the decisions and matters discussed at meetings of the Committee, the number of meetings held, attendance, and communications to the public from June to December 2022.

- 4.1.2 The Monetary Policy Committee Report to the Board was approved without amendment on a motion moved by Mr. David Marston and seconded by Dr. Nadine McCloud.

4.2 Annual Review of MPC Standing Agenda Calendar

- 4.2.1 The Committee Secretary tabled the Standing Meeting Agenda Calendar for MPC meetings. The Secretariat maintains the Agenda Calendar for MPC meetings that identifies the main agenda items to guide the proceedings of the Committee and ensures coverage of all matters to facilitate compliance with statutory requirements and best practices. The Standing Agenda Calendar for the MPC is submitted to the Committee for approval at the last meeting of each year.

- 4.2.2 The Committee approved the Standing Meeting Agenda Calendar as tabled.

5.0 Monetary Policy Matters

5.1 Risk Assessment for Macroeconomic Projections and Monetary Policy Recommendations

5.1.1 A presentation, which contained Bank Staff's assessment of risks to the November 2022 macroeconomic projections and the Staff's recommendations for monetary policy, was tabled by the Deputy Division Chief of REPD.

Recap of November 2022 Macroeconomic Projections

5.1.2 In November 2022, Bank Staff had projected that headline inflation would average 6.7 per cent over the next two (2) years (December 2022 to September 2024 quarters). Assuming no further shocks, inflation had been projected to range between 9.5 and 10.5 per cent for the remainder of 2022 and fall to single digits in early 2023. The inflation forecast had anticipated that the public's expectation for future inflation would begin to fall in the second half of 2022, consistent with the projections for a decline in international commodity prices (grains and energy prices) during that period.

5.1.3 Continued growth in domestic demand had been expected over the next two years, mainly driven by the normalisation of economic activities. At the November 2022 forecast round, the Bank had projected growth in domestic economic activity for fiscal year (FY) 2022/23, FY2023/24 and FY2024/25 in the range of 3.0 to 4.5 per cent, 1.0 to 3.0 per cent and 1.0 to 2.0 per cent, respectively.

5.1.4 Over the next two years, external demand was expected to weaken and drive inflation downward, which could lead the US Federal Reserve (Fed) to pause its rate increases in early 2023. Growth of the US economy was projected to decelerate over the next two years due to tightened financial conditions and heightened inflation.

5.1.5 A tightening of monetary conditions in Jamaica had been projected over the next two years as inflation expectations falls. Nominal market interest rates had been projected to converge to the neutral nominal rate over the medium term. The Bank had projected the exchange rate to fall below equilibrium over the near term and converge with the equilibrium rate in the medium term.

5.1.6 The current account of Jamaica's balance of payments had been projected to improve over the next two years. This projection reflected improved services and income sub-accounts, partially offset by a worsened goods balance and a deterioration in current transfers.

5.1.7 The gross international reserves (GIR) had been projected to remain adequate. At March 2023 and March 2028, the GIR had been forecasted to be 116.1 per cent and 126.1 per cent, respectively, of the International Monetary Fund's (IMF) Assessing Reserve Adequacy (ARA) metric.

Monetary Policy Effectiveness

5.1.8 Liquidity for November 2022 declined relative to the forecast for an increase, due to stronger Government of Jamaica (GOJ) absorptions and lower than anticipated Bank of Jamaica (BOJ) injections. Liquidity conditions for the December 2022 quarter are expected to be higher compared to forecast.

5.1.9 Data also continued to show that, in the wake of the MPC's past monetary policy adjustments, the pass-through to commercial bank rates has been limited. Over the period October 2021 and October 2022, the Bank's policy rate had increased by 650 basis points (bps). The weighted average deposit rate offered by commercial banks to the public however increased by just 46 bps. The primary contributor to the increase in deposit rates was time deposits, the weighted average rate of which increased by 200 bps over the period. The rates on prime loans remained relatively unchanged for October 2022, compared to the previous month but had increased relative to the comparable period last year. An informal survey of five commercial banks in November 2022 indicated that there had been marginal changes in interest rates on new bank deposits and loans in Jamaica and that some commercial banks have announced future rate increases.

5.1.10 In terms of the foreign exchange market, it was noted that the policy measures continued to contribute to its stability.

5.1.11 In the context of the sluggish response of deposit rates to the Bank's monetary policy signals, growth in domestic currency deposits at October 2022 slowed to 9.4 per cent from 12.4 per cent at September 2022. Growth in FX deposits at October also slowed. Since early 2022, the private sector's deposit dollarization ratio has consequently trended downward.

5.1.12 Annual growth in private sector loans and advances accelerated for September and October 2022 to 11.7 per cent for both months. This resulted mainly from stronger growth in business loans, associated with broad based strengthening in loan growth for a number of sectors. Growth in Building Societies loans however continued to moderate. The Bank's most recent Credit Conditions Survey (for the September 2022 quarter) showed that the overall demand for credit as well as credit supplied to businesses and individuals increased for the quarter.

Respondents expect the demand for credit and credit made available to increase for the December 2022 quarter.

Recent Developments and Risk Assessment

5.1.13 Global growth was generally higher than forecasted for the September 2022 quarter. Growth in several major economies, such as Canada, the Euro Area, US and the UK, was better than projected, while Japan experienced lower-than-expected growth. The higher-than-expected US Gross Domestic Product (GDP) growth for the quarter reflected higher consumer spending, net exports and government investment. Leading indicators of US GDP suggested that economic activity could be lower for the December 2022 quarter relative to the September 2022 quarter but marginally higher compared to BOJ's projection. The risks to the Bank's global growth outlook are skewed to the downside due to downward pressures emanating from the effect of tight monetary policies and an escalation of geopolitical tensions.

5.1.14 For October and November 2022, average West Texas Intermediate (WTI) crude oil prices of US\$87.03 per bbl. and US\$84.21 per bbl. were lower than the Bank's forecast of US\$88.14 per bbl. and US\$92.55 per bbl., respectively. Similarly, Liquefied Natural Gas (LNG) prices trended below projections over the same period. The risks to both crude oil and LNG prices are skewed to the downside.

5.1.15 The average price of grains trended in line with the Bank's forecast. Upward pressure on grains prices was influenced by (i) hot and dry weather crop-growing concerns in the US and Argentina and (ii) reports in early November that Russia withdrew temporarily from the United Nations' Black Sea Grain Initiative. Downward pressure on prices was impacted by (i) continued concerns about a slowing global economy, (ii) renewed COVID-19 restrictions in China, and (iii) a 120-day extension of the Black Sea humanitarian corridor in late November. The risks to the projection for grains prices are balanced.

5.1.16 Inflation among Jamaica's main trading partners at October 2022 was marginally above the Bank's projection. Notably, inflation in the US was 7.7 per cent at October 2022, compared to the Bank's forecast of 7.5 per cent. The risks to trading partners' inflation are balanced. Trading partners' inflation is expected to continue to trend downward, broadly in line with the forecast over the next two years.

5.1.17 At its December 2022 meeting, the US Federal Reserve increased the target for interest rates by 50 basis points (bps), in line with the Bank's forecast. The Fed also

signalled more rate increases to come. Bank Staff anticipates that the Fed will raise interest rates at its February 2023 meeting by an additional 25 to 50 bps.

5.1.18 Growth in the Jamaican economy for the September 2022 quarter could be higher than forecast due to higher economic activity in Agriculture, Tourism, Distribution and Manufacturing. An assessment of leading indicators for domestic real GDP growth also supports stronger-than-expected expansion for the December 2022 quarter compared to the Bank's November 2022 forecast. With regard to Tourism, preliminary estimates for October 2022 showed that non-national visitor arrivals would be revised downward relative to the November forecast but the data for November 2022 was expected to be in line with the Bank's projection. The outlook for average daily expenditure from September 2022 to December 2022 would be revised upward. Remittances, an indicator of spending in the domestic economy, generally trended in line with projections.

5.1.19 The risks to the Bank's inflation forecast are balanced based on the following considerations:

- i. Annual inflation at November 2022 was 10.3 per cent, higher than the 9.9 per cent outturn in October 2022 but in line with the Bank's projection of 10.3 per cent. The November outturn primarily reflected upward movements in the Food and Non-Alcoholic Beverages and the Restaurants and Accommodations Services divisions of the Consumer Price Index. The increase in Food was largely attributable to higher prices for vegetables, tubers, plantains, cooking bananas and pulses following adverse weather conditions in the September 2022 quarter. The increase in Restaurants and Accommodations Services primarily reflected the lagged impact of international commodity prices. The average inflation rate over the next eight quarters is likely to trend in line with the average rate forecasted at the November forecast round.
- ii. Core inflation (the measure that excludes fuel and food prices) of 8.8 per cent at November 2022 was lower than the October outturn.
- iii. Inflation expectations continued to fall but remained elevated. One-year-ahead inflation expectations for October 2022, measured by a survey of Jamaican businesses, declined marginally to 11.6 per cent from 11.7 per cent for September 2022 and was in line with the Bank's forecast. Imported inflation continued to rank as the main factor influencing inflation expectations based on the October survey. Inflation expectations were expected to continue

downward as import prices fell and the exchange rate remained stable. The rate of change in private sector wages however, appeared to have accelerated.

Recommendations

5.1.20 The Bank Staff recommended that Bank of Jamaica maintains the monetary policy rate and continues to manage Jamaican dollar liquidity and the foreign exchange market proactively.

5.2 Financial Market Update and Short-Term Outlook

5.2.1 Head of the Market Operations and Analysis Department presented recent developments in the financial markets and provided a short-term outlook for conditions in the money and foreign exchange markets.

5.2.2 Following the Bank's policy adjustment in November 2022, overnight and inter-bank private money market rates increased in August 2022, while rates in the 30-day segment decreased. The weighted average yields on the Bank's 30-Day Certificate of Deposit and the 90-day GOJ Treasury Bill auction trended upward at November and December 2022, respectively. This uptick reflected a desire for higher yields given the tightening of monetary policy. Liquidity during November 2022 increased relative to the previous month.

5.2.3 At end-November 2022, the GOJ Jamaican dollar secondary market yield curve reflected general stability relative to end-October 2022. This pattern was evidenced by the longer end of the curve remaining generally stable while the yields of the shorter end fell slightly.

5.2.4 In terms of developments in the foreign exchange (FX) market, for the calendar year to 30 November 2022, the weighted average selling rate (WASR) appreciated by 0.2 per cent (J\$0.37), in contrast to a depreciation of 9.0 per cent for the period January to November 2021. The WASR depreciated by 0.4 per cent for November 2022, compared to a depreciation of 0.7 per cent for the corresponding month in 2021. The slower pace of depreciation in November 2022 partly reflected US dollar liquidity support from BOJ via B-FXITT Sales as well as portfolio adjustments by one deposit-taking institution. The lower pace of depreciation also occurred in the context of buoyant inflows and sales, albeit lower than the preceding month.

- 5.2.5 In November 2022, there was a monthly decline in FX net open positions (NOPs) to a short position of US\$34.8 million, resulting primarily from net spot sales by authorised dealers, in contrast to net spot purchases in October 2022. With regard to the forward market in November, buy and sell transactions totalled US\$25.0 million and US\$66.4 million in the USD/JMD currency pair, respectively. The net sale reflected transactions with clients mainly from the Energy sector (US\$30.3 million in sales).
- 5.2.6 For the near-term outlook, Jamaican dollar liquidity is expected to decline for the remainder of the December 2022 quarter, given the currency issuance associated with the period and end-quarter tax obligations. Liquidity is expected to remain skewed to the shorter end of the curve for the remainder of the December quarter as investors position for Jamaican dollar commitments and investment opportunities. Bank Staff also anticipates a significant injection during the March 2023 quarter. In this regard, the Bank will continue to ensure that orderly market conditions prevail.

5.3 Discussion

- 5.3.1 After the presentations, the MPC engaged in the following discussions:
- 5.3.1.1 The MPC briefly discussed the latest labour market conditions in Jamaica, in particular, the interrelationship of current labour market shortages, wage pressures and the output gap. It was recommended that Bank Staff reassess the nexus between the labour market and its assumptions and projections for the output gap.
- 5.3.1.2 The Committee discussed the results of the Bank's latest Credit Conditions Survey and noted that the supply of credit was still accelerating despite the efforts of the Central Bank to slow credit growth.
- 5.3.1.3 The MPC noted the initiative by BOJ to publish in newspapers the deposit rates paid by all commercial banks. This action has apparently been well received by the media and the general public. The Committee expressed its hope that this information will help the public to make more informed decisions regarding their deposits.
- 5.3.1.4 The Committee also discussed anecdotal information relating to banks' loan contracts which potentially contributed to the slow response of DTIs' interest rates to BOJ's policy signals. It appeared that some banks may have executed fixed rate loan contracts with some of their customers,

which may have prevented them from adjusting their business rates in line with the Central Bank's policy actions. Beyond this, commercial banks may have been sensitive to the impact of higher rates on the size of their non-performing loan portfolios. In contrast, interest rates in the non-DTI sector had increased in line with the policy rate. The MPC recommended that discussions should continue with the DTI sector on the interest rate pass-through.

5.3.1.5 Following the Committee's discussion on improving the monetary policy transmission mechanism, the MPC was informed that the Governor had commissioned a project to assess the banking system's profitability and to advance recommendations to address the structural and policy rated issues, if they are found to impair bank profitability.

5.3.1.6 In addition to the initiative above, Bank of Jamaica has been in dialogue with the Minister of Finance and the Public Service about deposits of public bodies held in the commercial banking sector with a view to the GOJ earning the most competitive interest rates on those deposits.

5.3.1.7 The Senior Deputy Governor also briefed the meeting on the recent Mission of the International Monetary Fund, conducted between 05-15 December 2022. The main objectives of the IMF Mission were to (i) conduct the 2022 Article IV Consultation and (ii) commence the formal negotiations of a staff-level agreement with Jamaica on a Precautionary and Liquidity Line (PLL) and the Resilience and Sustainability Facility (RSF). The IMF team and the Jamaican authorities reached a staff-level agreement on the authorities' request for a PLL and the RSF with combined access of US\$1.7 billion. The IMF's Executive Board is expected to consider these requests in early 2023. Similar to past IMF programmes, there will be quantitative targets and benchmarks that the Jamaican authorities must meet. The Bank of Jamaica will be responsible for meeting the net international reserves (NIR) target. The members were also informed that the IMF endorsed the monetary policy actions of the MPC.

5.3.2 The meeting ended at 3:50 p.m. on 16 December 2022.

THE COMMITTEE RECONVENED ON 19 December 2022 AT 9:00 a.m.:

6.0 **Monetary Policy Decision**

6.1 The Committee accepted and adopted the Staff's assessment of risks and policy recommendations.

6.2 Based on the discussions on 16 and 19 December 2022, the Chairman invited the Committee to vote on the proposed package of measures that (i) the Bank maintains the policy rate at 7.00 per cent and (ii) continues to contain Jamaican dollar liquidity expansion and maintain relative stability in the foreign exchange market.

6.3 The Committee **unanimously** voted in favour of the proposed package of measures.

7.0 **Summary of Decisions and Press Release made at the meeting (Monetary Policy Communication)**

7.1 Following the monetary policy decision, the Committee discussed the following documents: (i) Summary of Monetary Policy Discussion and Decision and (ii) the Monetary Policy Press Release.

7.2 The Committee requested that Bank Staff revise the documents based on the recommended changes and recirculate them for approval via round-robin.

8.0 **Any other Business**

8.1 There was no other business raised.

9.0 **Adjournment of the Meeting**

9.1 There being no other business, the Chairman adjourned the meeting on 19 December 2022 at 10:21 p.m.

SUMMARY OF APPROVALS/DECISIONS

The table below summarises the decisions and approvals made by the Committee.

ITEM NO.	DESCRIPTION	APPROVALS/DECISIONS
1.	Agreement by MPC to maintain the Policy Rate at 7.00 per cent and continue to manage Jamaican dollar liquidity and the foreign exchange market proactively.	APPROVED- Meeting of 19 December 2022
2.	Summary of Monetary Policy Discussion and Decision-December 2022	APPROVED-subject to amendments agreed on at the meeting of 19 December 2022
3.	Monetary Policy Press Release-December 2022	APPROVED-subject to amendments agreed on at the meeting of 19 December 2022