



OFFICE OF THE MINISTER OF FINANCE AND THE PUBLIC SERVICE

September 19, 2023

Mr. Richard Byles
Governor
Bank of Jamaica
Nethersole Place
Kingston



Dear Mr. Byles:

Response to MPC's Explanation of the Inflation Target Breaches for May 2023 to July 2023

Thank you for your letter of 1 September 2023 on behalf of the Monetary Policy Committee (MPC) outlining the reasons for headline inflation being above the Bank's target of 4.0 to 6.0 per cent over the period May 2023 to July 2023.

I agree with your explanation that the breaches of the target for the period primarily reflected the exceptionally high agricultural price inflation due to the impact of drought and high temperatures, the first-round effect of an upward adjustment to the national minimum wage, ongoing upward adjustments in the price of meals consumed away from home and related adjustments to the price of selected goods and services. However, I am encouraged to note that critical factors such as international commodity and shipping costs, trading partners' inflation and inflation expectations continued to trend downwards, and the exchange rate has been stable.

I have noted your outlook that the uptick in inflation is projected to continue for the remainder of the September 2023 quarter before decelerating to the Bank's target range of 4.0 to 6.0 per cent by the December 2023 quarter and, except for a few months in 2024, remain there. In addition, US inflation continues to decelerate broadly in line with expectations. This development will continue to ensure that the gains achieved domestically will be entrenched. However, I understand that inflation could rise above the projected path in the context of higher-than-projected wage adjustments, second-round effects from agricultural price inflation, deteriorating supply chain conditions and an elevation of world oil prices.

I note that there has been material success in controlling core inflation aided by the MPC's management of the exchange rate and liquidity. In addition, I acknowledge that there has been a relatively strong, lagged pass-through of the policy rate to interest rates in the domestic money and capital markets, as well as the term rates offered on deposits. Against this background, I note the MPC's decision to maintain the policy interest rate at 7.00 per cent at its most recent policy meeting on 16 and 17 August 2023.

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I also welcome the MPC's commitment to maintain tight Jamaican dollar liquidity and relative stability in the foreign exchange market. In addition, I commend the MPC's attentiveness to closely monitoring the global and domestic economic environment for potential risks to Jamaica's inflation rate and acting accordingly. I am assured that the MPC will continue to carefully consider the trade-offs involved in future decisions to reassure itself of the net welfare benefit of its policy actions.

As a critical element of the Government's commitment to transparency and accountability concerning inflation targeting, I will make public a copy of my letter and your correspondence on the inflation breach via the Ministry of Finance and the Public Service website.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Nigel Clarke'.

Nigel Clarke, D.Phil, MP
Minister of Finance and the Public Service