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BOJ NEWS RELEASE: WHICH INFLATION RATE DOES BOJ TARGET?

On Friday, 15 January 2021, the Statistical Institute of Jamaica (STATIN) published its bulletin for the Consumer Price Index for December 2020. In this report, it was noted that, for **calendar year 2020**, the inflation rate was 6.4 per cent.

The same release by STATIN also noted that the **point-to-point inflation rate as at December 2020 was 5.2 per cent.**

The calendar-year measure of inflation reports the movement in the CPI as at December 2020 relative to the CPI at January 2020. On the other hand, the point-to-point measure of inflation reports the movement in the CPI as at December 2020, relative to the CPI at December 2019.

We note that it is not normal for these figures for the calendar year inflation versus the point-to-point measure as at December 2020 to be significantly different. In this case however, the difference between the two numbers reflected the timing of shocks that affected the CPI during 2020. In addition, these differences have resulted in some confusion as to whether Bank of Jamaica (BOJ) was successful in meeting its inflation target of 4.0 per cent to 6.0 per cent at December 2020. In fact, some elements of the media have already incorrectly reported official inflation at December to be 6.4 per cent.

We therefore wish to clarify and remind that the inflation measure by which BOJ's performance should be judged is the annual point-to-point as at December and not the calendar year or any other measure.

This measure is stated in the soon-to-be gazetted law amending the Bank of Jamaica Act, which was passed by the both Houses of Parliament in December 2020. Section 34FF(4) of the law specifies that “*the target measure applicable for inflation shall be the annual point to point change in the Consumer Price Index as measured by the Statistical Institute of Jamaica*”.

Since 2017, Bank of Jamaica has been charged by the Minister of Finance and the Public Service with a target range for the 12-month point to point inflation rate of 4 – 6 per cent.

Despite continued challenges of weather-related agricultural price fluctuations, BOJ has been fairly successful in maintaining inflation within the 4 to 6 per cent corridor. During the past 36 months leading up to December 2020, inflation has surpassed the upper limit of the target on just two occasions, in December 2019 and June 2020. This represents a 94 per cent success rate in keeping inflation below 6.0 per cent.

The reason for inflation going above target on those two occasions was related to temporary increases in agricultural prices due to either droughts or floods. On the flip side, there have been 13 occasions over the past 36 months when inflation fell below the 4.0 lower limit of the inflation target. Again, these events were largely associated with volatility in agricultural supplies and prices as well as declines in international oil prices which influenced reductions in electricity and transport-related costs.

Bank of Jamaica remains committed to its primary objective of keeping inflation low, stable and predictable within its inflation target.

For more information on inflation, please follow our Twitter, Facebook, and YouTube accounts and pay attention to our news releases.

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