



Summary of Monetary Policy Discussion and Decision February 2023

At its meetings on 16 and 17 February 2023, the Monetary Policy Committee (MPC) noted the following:

1. Jamaica's headline inflation rate at January 2023 of 8.1 per cent was below the rate of 9.4 per cent at December 2022.
2. Core inflation (which excludes food and fuel prices from the CPI) at January 2023 also decelerated to 7.1 per cent from 8.5 per cent at December 2022 and is projected to fall further in a context of the maintenance of continued tight monetary policy.
3. The key external drivers of headline inflation such as grains, fuel and shipping prices continued to decline. The forecasts for these variables have been lowered. In addition, inflation expectations continued to track downward.
4. As expected, the pace of monetary tightening by the United States (US) Federal Reserve Board (Fed) slowed.
5. Annual Inflation is projected to continue to fall and enter the Bank's inflation target range of 4.0 to 6.0 per cent by the December 2023 quarter.

Notwithstanding these positive developments and outlook, the MPC noted that the risks to the inflation outlook are elevated. In a context where the domestic economy continues to grow, labour market shortages carry the potential for future wage adjustments that can put upward pressure on inflation. The projected level of liquidity in the financial system, if left unchecked, poses material risks to the achievement of the inflation target as well as to the maintenance of stability in the foreign exchange market. Higher inflation could also ensue from a worsening in supply chain conditions and higher commodity prices if there are further geo-political disruptions. On the downside, weaker than expected global growth could negatively affect domestic demand and some projected adjustments to regulated prices may not materialize.

Further, while interest rates in the money and capital markets have generally increased in line with the policy rate, some deposit-taking institutions (DTIs) have, so far, made only marginal adjustments to their deposit and lending rates. Between October 2021 and December 2022, the weighted average deposit rate offered by commercial banks to the public increased by 59 basis points (bps). The MPC also noted preliminary data which indicate that these rates will be adjusted upward by marginal amounts in the near future. In addition, the overall weighted average lending rate to the private sector on local currency loans was 11.7 per cent at December 2022, 7 bps below the rate at September 2021. In this context, local currency deposits grew by 12.6 per cent at December 2022, an unchanged growth rate relative to a year earlier. Growth in loans and advances at December 2022, however, accelerated to 12.6 per cent from 7.6 per cent a year earlier.

Therefore, to further underpin inflation returning to the target range and to underwrite continued stability in the foreign exchange market, an additional precautionary liquidity control measure of increasing the Cash Reserve Requirement (CRR) was required. The MPC unanimously decided to



increase by one percentage point (pp) the domestic and the foreign currency Cash Reserve Requirements applicable to DTIs, effective 01 April 2023.

The MPC noted that DTIs are currently required to hold a minimum of 5.0 per cent of their Jamaican dollar-denominated prescribed liabilities and 13.0 per cent of their foreign currency-denominated prescribed liabilities as cash reserves at the central bank. The Committee also noted that the domestic currency CRR had been reduced progressively from 12.0 per cent at the start of 2019 to 5.0 per cent in the context of an extended period of low and stable inflation and that the Bank had maintained a constant differential between the domestic currency CRR and the foreign currency CRR over much of the period.

The MPC also decided to maintain the policy interest rate (the rate offered to DTIs on overnight placements with BOJ) at 7.00 per cent, to maintain its posture in the money market and continue to foster relative stability in the foreign exchange market.

The MPC reiterated that in the absence of new shocks, future monetary policy decisions aimed at returning inflation to the Bank's target range, including further adjustments to the cash reserve requirement, will depend on the state of liquidity in the financial system and the continued pass-through effect of monetary policy on deposit and loan rates. The decisions will also depend on the MPC seeing more pass-through of international commodity price reductions to domestic prices and on the Fed continuing to slow its policy rate increases.

The MPC also reiterated its continued commitment to review the monetary transmission mechanism with the objective of ensuring that monetary policy achieves the desired impact on inflation.

The following considerations helped to inform the Committee's decisions:

- 1. Consistent with global consensus forecasts for a fall in commodity prices, the Bank's overall monetary policy stance, and in the absence of new shocks, inflation is projected to continue to decelerate in 2023.** This forecast envisages that annual inflation will fall within the Bank's inflation target range of 4.0 to 6.0 per cent by the December 2023 quarter and remain generally at that level over the medium term.
- 3. The Jamaican economy continues to grow strongly. Gross domestic product (GDP) for fiscal year 2022/23 is now projected in the range 4.0 to 5.5 per cent, exceeding the upper limit of the range previously anticipated by the Bank.** The outturn for the September 2022 quarter was higher than the Bank had anticipated and there are signs that the economy continued to expand for the December 2022 quarter and for the March 2023 quarter to date. Domestic economic activity is estimated to have returned to pre-COVID-19 levels in the December 2022 quarter and is expected to remain above pre-COVID levels over the forecast horizon.
- 4. GDP growth for FY2022/23 is being driven by the services industry, particularly tourism.** There has also been buoyancy in the agricultural sector, which is expected to continue given the demand from the tourism sector. The forecasted growth also reflects the resumption of production at the Jamalco alumina plant. Against the background of the strong growth in the economy, labour shortages in selected sectors however carry the potential for future wage adjustments that can put upward pressure on inflation.



5. **GDP growth for FY2023/24 is projected to moderate to the range of 1.0 to 3.0 per cent.**
6. **The risks to the domestic GDP forecast are skewed to the downside, which means that actual GDP growth could be lower than the forecast.** Growth in tourist arrivals and related activities could be adversely affected by headwinds to global growth. Finally, there is a risk that domestic consumer spending could be adversely affected by the high, albeit falling, domestic inflation.
7. **US GDP growth is forecasted to slow down in 2023, relative to 2022.** This growth outlook reflects the impact of high, albeit decelerating inflation on consumption, tight monetary conditions and reduced fiscal support. Inflation in the US was 6.4 per cent at January 2023, lower than the outturn of 6.5 per cent at December 2022. US inflation is projected to continue to fall but remain above the Fed's target of 2.0 per cent for the remainder of 2023. Following the increase of 25 bps on 1 February 2023, Bank of Jamaica anticipates that the Fed will raise interest rates in March 2023 by an additional 25 bps, and base its future decisions on the incoming data. The Committee however noted that there were risks around the future path of external rates.
8. **The risks to the outlook for the US economy are skewed to the downside, primarily related to the possibility of escalating geopolitical tensions and increased supply shortages.** Additional downward pressures could come from a stronger than expected impact of monetary tightening on economic growth.
9. **The domestic fiscal policy stance continues to pose no risk to inflation over the near term.**

A handwritten signature in blue ink, appearing to be "J. Mitchell".

Chairman of the MPC
20 February 2023