



Government of Jamaica

OFFICE OF THE MINISTER OF FINANCE AND THE PUBLIC SERVICE

August 21, 2018

Mr. Brian Wynter, CD
Governor
Bank of Jamaica
Nethersole Place
Kingston

Dear Governor,

Re: Breach of Inflation Target

Thank you for the comprehensive report dated 7 August 2018 on the inflation outturn through end-June 2018 and your assessment of the path ahead.

The empirical evidence on the determinants of the inflation outturn that was observed in the first half of 2018 is persuasive and the underperformance of inflation relative to the target can be credibly ascribed to a confluence of factors that do not include inappropriate policy action. Those very factors, however, may be reversed, in the event of, for example adverse weather changes or increases in international commodity prices.

I note that core, or underlying, inflation has also been lower than expected which reflects the modest growth in aggregate demand. The accommodative monetary policy stance that the Bank has been pursuing recognizes this sluggishness that has persisted despite encouraging evidence of an expansion in employment. Growth in GDP remains lower than potential and maintaining a policy stance that supports faster growth through an expansion of credit to the private sector is clearly desirable so long as it does not ignite inflation beyond the programmed limit. I therefore expect that the Bank of Jamaica will carefully balance the risk of overshooting the inflation target in future periods caused by overreacting to the underperformance to June, against the risk of continuing to miss the inflation target on the downside by failing to fully exploit the space for accommodative monetary policy action in the face of continued sluggishness in demand.

Based on the projected path for inflation and its consistency with fiscal and macroeconomic objectives, I hereby affirm the maintenance of the medium-term target of 4.0-6.0 per cent.

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Mr. Brian Wynter, CD
Governor
Bank of Jamaica

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August 20, 2018

For full transparency and in order to add to public understanding, I will publish your letter and my response and I hereby authorize you to do the same.

Yours sincerely,

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

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