



**University of the West Indies, Mona
Campus Council Luncheon**

University of the West Indies, Mona

Address

**Brian Wynter
Governor, Bank of Jamaica**

Friday, 05 March 2010

**The Role of the University in Responding to Jamaica's
Fiscal and Monetary Challenges: Perspective from the Central
Bank**

Ladies and Gentlemen,

Thank you for inviting me. I am keenly aware of the long history of fruitful interaction between the University and the Bank of Jamaica especially among the economists and I am just as keen to see this interaction continue. The University has a crucial role to play in Jamaica's effort to move the economy forward and I therefore welcome the opportunity to speak to you on the subject of the University's role in responding to Jamaica's fiscal and monetary challenges. The ongoing intellectual exchange improves our understanding of the economy and enhances our knowledge of the workings of monetary policy.

Jamaica, like many other countries has been adversely affected by the global economic crisis. The country's major export earning sectors were severely impacted with the fall-out in mining and the down-turn in world travel. In addition, inflows from remittances were significantly reduced. These factors had major spillover effects on the fiscal accounts through the fall-out in revenue and the need for increased expenditure on social intervention.

The reduction in foreign exchange inflows severely challenged the central bank efforts to maintain stability in the foreign exchange market. Additionally, the global financial crisis had an impact on the domestic financial system as the international credit markets became increasingly tight. Some institutions experienced margin calls and had to seek assistance from the central bank. The economic situation coupled with the longstanding depth and persistence of weaknesses in the economy meant that the Bank faced grave difficulties in achieving its main objective of price stability. This was in an environment in which demands to meet the gap between supply and demand in the foreign exchange market were increasing and the government was having difficulty in meeting its revenue targets and obtaining domestic and international financing.

These challenges led the Government to seek a 27-month Stand-by Arrangement with the International Monetary Fund which, as you all know, was approved last month. The loan from the IMF amounts to US\$1.27 billion, half of which has already been received. The conclusion of the negotiations with the IMF paved the way for the approval of additional loan funds amounting to US\$1.1 billion from other multilateral financial institutions. Already, US\$400 million of this total has been disbursed. The loans from the IMF and other multilateral financial institutions were made in support of the Government's medium-term economic and financial programme and it is important to understand that further disbursements will depend on strict adherence to the quarterly targets set out in the programme. This implies the need for on-going surveillance of performance criteria over the medium-term.

The Government's medium-term economic and financial programme is designed to return Jamaica to a path of sustainable growth and development. The programme focuses on the monetary and fiscal requirements needed to fundamentally transform the Jamaican economy in order to achieve this objective. The aim is to reduce inflation, achieve greater stability in the exchange rate and lower interest rates while reducing the debt overhang and stabilizing the fiscal accounts. In the process, the programme aims at building a more resilient economy to give us more manoeuvring room to cope with external shocks, such as the devastating effects of the recent global crises.

With regard to monetary policy, the target is to return inflation to single digits in the next fiscal year with a gradual fall to mid-single digits in the medium term, taking into account the impact of the recent tax measures, which will be temporary. The target assumes that domestic demand will remain low initially and that inflation expectations and the exchange rate will remain stable.

As we are aware, Jamaica's inflation is driven significantly by food and energy prices, stemming from a number of factors - imported inflation, expectations, domestic demand or shocks to commodity prices. The Bank will therefore have to be even more proactive in countering any sign of threats to the inflation target as they emerge.

The low inflation objective has been challenged over the years by persistent and unsustainable fiscal and debt dynamics. The correction of this is a core objective of the fiscal policy measures outlined in the programme. The fiscal authorities are committed to measures which include the elimination of the overall public sector deficit over the medium-term and a gradual reduction in the debt to GDP ratio, as well as fiscal consolidation aimed at streamlining expenditure and reforming the public sector. A Fiscal Responsibility Framework is being developed to place effective limits on borrowing and to establish rigid standards for accountability. The development of a comprehensive debt management strategy, a component of which was the Jamaica Debt Exchange programme that was supported by nearly all domestic bondholders, is also included.

The Government has also committed to a number of regulatory reforms aimed at strengthening the financial system. These include an omnibus law for deposit-taking institutions that will allow for more effective supervision of conglomerates (to be passed this year). In addition, the Bank of Jamaica Act and the relevant statutes for the Financial Services Commission are to be amended to strengthen the regulatory framework.

This brings me to the University's role in responding to the monetary and fiscal challenges in Jamaica. In my view, there are three broad areas in which the University contributes. The first is the *education* of students to be effective practitioners and leaders in public policy. The second is *research* and the third is in serving as *a hub for policy discourse* – for bringing together researchers, practitioners, and interested members of our community to contribute to policy debates across many areas of expertise, both nationally and internationally.

In the education of students, I see the University's contribution to the monetary and fiscal challenges as cutting across the wide spectrum of academic pursuits – from the Pure and Applied Sciences to Medicine to the Social Sciences, to the Arts. All of these have a positive impact on the availability of the technical resources needed for growth and development. A growing economy is the ultimate solution to the challenges faced by monetary and fiscal policy, whether those challenges find expression through the shortage of revenue relative to the needs for social spending or through the supply-side bottlenecks that fuel inflation.

The University also makes a positive contribution to monetary and fiscal challenges through *research*. The development of sound monetary and fiscal policy needs a rigorous intellectual framework that incorporates the latest insights from economic theory and applied research. Over the years, researchers at the University have set high standards for analytical rigour in work that has been of significant importance to the economy and the country at large.

Everywhere, the challenges facing government are triggering new needs for applied research and policymakers are looking for insights. Researchers at the University can improve the policy process in Jamaica by bringing new ideas and approaches to the table - ideas that have been harvested from recent academic work that may not be easily accessible to the policymakers. Indeed, it is the cross-fertilization of ideas that improves the quality of both research and policy analysis.

Jamaica has recently taken some unprecedented fiscal decisions as well as some decisions that will broaden the responsibility of the Bank of Jamaica, all designed to set the economy on a path to sustained growth. There is now a sense of emerging breadth and vibrancy with regard to the discussions of fiscal and monetary and policy issues. The improved performance of monetary policy over the years has been associated with rigorous empirical work that has come to guide the thinking of practitioners. We must enhance this work by combining the best in policy-oriented research with the intellectual rigour and curiosity needed to address the issues that arise, some of which go beyond the immediate economic situation such as, how the public forms its expectations and what new direction, if any, has the recent “great recession” given to economics? In doing this we must also encourage policy makers to think outside of the tidy intellectual boxes in their minds.

Finally, the University can contribute to monetary and fiscal challenges by being the hub for policy discourse that it was in the decade of the 1960's - a period that also saw researchers at this University questioning the limiting assumptions of neoclassical economics in explaining Caribbean economic development and coming up with their own theoretical framework for examining Caribbean economies (such as George Beckford and Kari Levitt, etc, and the Plantation model).

In September last year, Paul Krugman in his New York Times column about the global crisis asked the question “How did economists get it so wrong?” Krugman's central argument was that the fascination of the economics profession for analytical elegance and mathematical acrobatics had marginalized attempts to understand the economy as it actually is. We hope that through its research and discussions the University will assist in enhancing our understanding of the economy *as it actually is*.

In the real world of monetary and fiscal policymaking we will be asking for your help from time to time as we confront policy questions.

Thank you.