



**5<sup>th</sup> ANNUAL JAMAICA STOCK EXCHANGE CONFERENCE ON  
INVESTMENTS AND CAPITAL MARKETS**

**Address**

**Brian Wynter  
Governor, Bank of Jamaica**

**Tuesday, 18 January 2010**

Ladies and Gentlemen,

I would like to congratulate the Jamaica Stock Exchange on the staging of its 5<sup>th</sup> Annual Conference on Investments and Capital Markets and to commend them for the work they have been doing over the years in advancing the development of the capital market in Jamaica and in the region. I thank the Exchange for inviting me to share some thoughts with you on the important theme they have chosen for this year's Conference - a theme designed to explore the possibilities for growth in our regional capital markets.

The Jamaica Stock Exchange and its regional counterparts have played an important role in fostering cross-border capital flows and there is no doubt that with the deepening process of regional financial integration these capital markets will have an increasingly important role to play in the future development of the region and its integration into the global economy. Indeed, the exploitation of the region's economic potential and the quantity and quality of investments will depend significantly on the availability of an enabling financial 'infrastructure' which includes efficiently functioning capital markets that allow us also to benefit from our own financial strength and resources.

My particular task today, is to look at the issue that has been described on your agenda as 'The 2010 Vision: the Macroeconomic Variables for Regional Growth and

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Development'. The vision of course must embrace issues that are beyond the scope of a discussion on macroeconomic variables, some of which fall within the domain of social policy and others which fall within the domain of industry-specific structural reform. The creation of credit bureaus and other mechanisms, for example, would help to unlock credit to small and medium sized enterprises. These domains present fit subjects for full exploration in their own right. Having said that, there can be no denying the critical importance of establishing and maintaining a sound macroeconomic foundation as a fundamental condition for growth and development. Indeed, it is within this context that Jamaica has been making a significant effort to establish and maintain the macroeconomic conditions that will turn the economy around and firmly position the country for sustained growth and development. The economic strategy that has been designed for Jamaica embraces some of the same considerations that are required for regional growth and development. I will therefore use this strategy as the basis of my talk today.

Jamaica's medium-term economic programme has been designed to facilitate a recovery of the Jamaican economy starting in 2010 and to ensure that the recovery sets a clear path towards the future growth and development of the economy. In this regard the Government, as most of you know, expects to be able to sign an agreement soon with the International Monetary Fund to provide the necessary support funding. The implementation of strategies for fiscal consolidation, debt sustainability and structural reform to entrench fiscal responsibility which accompany the programme are expected to reduce significantly the unsustainable fiscal and debt dynamics which have constrained growth in the Jamaican economy for so many years.

To put these developments in perspective we must recall that the Jamaican economy suffered greatly from the effects of the economic and financial crisis that the world experienced in 2008. And, to a greater or lesser extent, we have seen a similar impact in the economies of our Caribbean partners. Jamaica was hard-hit by a sharp drop in external demand caused by the global financial crisis. Spill-overs from the significant decline in exports (bauxite and alumina, especially) were far-reaching and affected all

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sectors of the domestic economy. Indeed, the Jamaican economy declined for eight consecutive quarters up to September 2009 and for the first three quarters of 2009, in particular, the economy declined by 2.9 per cent, the sharpest contraction in 25 years. With the downturn in our main markets, export earnings for the first nine months of 2009 declined by approximately 29 per cent, with goods exports falling by approximately 54 per cent. Additionally, remittance inflows for the year up to November 2009 contracted by 12.7 per cent. Consequent on the downturn in the economy, the unemployment rate, which was on a downward trajectory between 2000 and 2007, increased to 11.3 per cent as at July 2009 from an average of 10 per cent in 2007.

But Jamaica was not in a position to adopt counter-cyclical or expansionary monetary and fiscal policies in response to the downturn because of the prevailing and significant macroeconomic imbalances and structural weaknesses in the economy – structural weaknesses and imbalances which also exacerbated the impact of the fallout in the global economy. These imbalances are reflected in persistently high deficits in the current account of the balance of payments, persistently high fiscal deficits and, of course, high debt to GDP ratios.

In Jamaica, the initial response by the central bank was to restrain demand, given the fallout in foreign exchange inflows from earnings, transfers and capital flows. As the markets stabilized and inflation declined, the Bank has been unwinding its monetary policy stance. But a terrible price was paid – in the form of high interest rates – for Jamaica's heavy reliance on monetary policy. The price had to be paid because monetary policy was all that was left in the toolbox given the unsustainable fiscal and debt dynamics.

Clearly, a correction is required. But the correction that is required in order to bridge the sustainability gap cannot be achieved without fundamental change. Therefore what is now needed is a common understanding and acceptance of this fact and a collective effort to facilitate recovery and raise the economy's potential output so that we can achieve long-run prosperity.

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Fundamental to Jamaica's economic strategy is the need to maintain a stable macroeconomic environment characterized by low inflation, low and predictable interest rates as well as a stable financial system. In such an environment, the risks associated with volatile prices – exchange rates, interest rates, inflation and wages - will be reduced so that entrepreneurs can focus on long term planning and innovation. A stable environment will also enable businesses to compete effectively with their external counterparts.

The 2010 vision for Jamaica, then, insofar as macroeconomic variables are concerned, is to establish and entrench the conditions that must be in place for the sustained growth and development of the economy in a context of macroeconomic stability. This is to be achieved through a medium-term macroeconomic programme that is designed to reduce significantly the imbalances in the economy. The programme aims specifically at public sector debt and fiscal consolidation, improvements in which are pre-requisites for sustained low interest rates. The programme aims at the virtual elimination of the fiscal deficit over the next four years, thereby placing the debt-to GDP ratio on a sustained downward path.

The elements of the programme were recently outlined by the Prime Minister and the Minister of Finance. However, I would like to underscore the importance of a key component of the strategy – the package of measures aimed at entrenching fiscal responsibility. In particular, I want to emphasise the proposal to implement a modern fiscal responsibility framework along with a centralized treasury management system.

These two mutually reinforcing initiatives, when added to the progressive reduction in the public sector's demand for financing each year, will significantly reduce the role that public finances now play in shaping the financial environment. It would be quite clear to any observer that the volume and frequency of Government's demand for funding has dominated the role of monetary policy in the determination of conditions in money and credit markets. A system that imposes strict limits on debt financing combined with one

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that economizes on funds under the control of the Treasury will tend to remove much of the premium in the interest rate structure that is currently related to an amalgam of inflation uncertainty, exchange rate uncertainty, liquidity uncertainty and, more broadly, sovereign risk. As the fiscal situation of the Government improves and the economy begins to expand on a firmer footing, the spreads attached to Government global bonds will fall. This reduction will point the way for further reductions in domestic rates and fuel a virtuous cycle that is sustained by institutionalized fiscal discipline and efficient financial management.

In that context, the Bank of Jamaica would be put in a position where it could adopt some of the modern approaches to monetary policy formulation. An example is inflation targeting which has worked wonders for traditionally high inflation countries such as those in South America and which has helped cement expectations of low inflation throughout most of the developed world. Technically, we at the Bank are prepared for such a transition but until now have not had the requisite autonomy, legal and 'fiscal', to pursue such a course. I therefore attach a lot of what is possible by the time this IMF-assisted programme ends to the implementation of these structural reforms to public finances. Life will not be the same after that.

Ladies and gentlemen, the macro-economic programme along with its accompanying debt sustainability strategy has involved difficult policy choices, not least because the latter has entailed a departure from established practices. This has been undoubtedly a major challenge for all of us, but one that could not be avoided if we are to ensure that Jamaica's boat can be lifted by the rising tide, when it comes.

Indeed, a new world is now emerging, a world that has the potential to be very different from the one that existed before the crisis. In this new world, the sustained growth and successful transformation of economies, as of capital markets, will depend crucially on how well we prepare ourselves to face the challenges and seize the emerging opportunities. The macroeconomic initiatives being pursued by the Government entail

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sacrifices but they also present significant opportunities to put Jamaica on a path of sustained robust growth.

I have confidence that the Jamaican economy, with its great intrinsic vitality, will emerge from this period with renewed vigour. I am also confident that the Jamaica Stock Exchange as well as our regional capital markets have a unique opportunity to rise to the challenge and play their role in building and strengthening the financial systems of the region.

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