



***Low Inflation and Economic Growth***

**Prepared Remarks  
For The Rotary Club of Kingston**

**Brian Wynter**

**Governor**

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Good afternoon, ladies and gentlemen.

Thank you very much for this opportunity to share some thoughts with you on the role of low inflation in achieving sustainable economic growth in Jamaica. As members of a prominent and valuable service organization, you are influential in helping to shape public opinion, and your focus on helping local communities and youth makes this role that much more important. Moreover, many of you are business people, entrepreneurs, and risk-takers, the very people whose actions will generate growth and create jobs in Jamaica.

Maybe we haven't said enough about it, but growth and job creation, built on an export oriented and import substitution strategy, are critical components of the current economic programme. Even while we continue to make progress in stabilising the economy, we should not only be talking more about growth, we should be acting to achieve it.

It is well known that the Jamaican economy has for a very long time grown at a very slow pace. Low productivity, uncompetitive production processes, structural rigidities and a high debt burden are some of the causes for this and the result was seen in persistent unsustainable fiscal and external account imbalances. The current economic reform programme, now in its second year, tackles this problem with macroeconomic policy adjustments and a series of structural reforms. The programme is aimed at creating a stable, predictable and resilient macroeconomic environment in the context of significant strengthening of Jamaica's external competitiveness and productivity.

In implementing the necessary changes, Jamaica has made significant strides in correcting the overvalued exchange rate. The flexibility exhibited by the exchange rate has helped us regain some external price competitiveness which had been lost in preceding years.

In the past, depreciation at the levels we have seen (13.3 per cent in fiscal year 2012/13 and 10.8 per cent in fiscal year 2013/14) would have triggered a wave of price increases far greater than the inflation that occurred. Inflation would have wiped out whatever degree of competitiveness we gained from the exchange rate adjustment. It is very significant that it did not happen this time. The pass-through effects of depreciation were in fact much less than in previous years. This means that, this time, the benefits of improved external competitiveness remain on the table to be exploited by the business people, entrepreneurs and risk-takers amongst you.

Going forward, Bank of Jamaica is focussing not just on making sure that inflation does not rise above our current target of 7.0 per cent to 9.0 per cent, but in lowering inflation in a series of steps over the next few years until annual inflation in Jamaica settles down in a range of 2.0 to 4.0 per cent. This range is in line with inflation in our major trading partners, and will help to ensure that Jamaican businesses are not be undermined by cheaper foreign goods and services.

You can see from this just how important low inflation is to achieving sustained economic growth. A stable, low-inflation environment not only facilitates exchange rate stability, it contributes to better economic decision-making, more reliable planning and, ultimately, more and better quality investments, job creation and growth.

However, the success we seek in terms of higher economic growth will not come about solely on the basis of the reforms and government policy initiatives. Neither will it come solely on the basis of help from the IMF or anybody else outside of Jamaica. Success will come only with the active participation of private enterprise, acting harmoniously with all components of our society to make it happen. The spirit of collaboration between and amongst the public sector, private sector, labour and civil society has been singled out for notice by external observers when they contemplate Jamaica's journey so far in this economic reform programme. As we begin to look forward from stability to higher growth, that collaboration will be just as vital.

We are entering a new paradigm for the economy, based on fiscal sustainability, low inflation and a more competitive business sector. In terms of our vision, we want an environment where good business ideas can blossom into profitable export earning enterprises. We want an economy where businesses find it easy to start up, pay taxes and exit operations when and where better opportunities present themselves. We want an economy that is well supported by adequate infrastructure such as good roads, low cost energy, and readily available and reasonably priced credit, among others. We want an environment where we take more advantage of the synergies or linkages between tourism and other sectors of the economy.

I am mindful that we have not overcome all the challenges, but much has been achieved and there are opportunities all around. We are looking to the private sector to do what the private sector does best; create value using private enterprise, thereby creating jobs and sustainable economic growth. We now need entrepreneurs and risk-takers to see it, believe it, believe it will last and start investing.

Your 4-way Rotary test asks, is it the truth? Is it fair to all concerned? Will it build goodwill and better friendships? Will it be beneficial to all concerned? I wonder if you would consider adding, with respect to your business activities, will it affect inflation? Will it earn foreign exchange? Will it save energy? Will it replace an import?

Thank you