BANK OF JAMAICA

Quarterly Press Briefing
Brian Wynter
Governor

Bank of Jamaica
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A Call to Action: the Stage is Set

Good morning and welcome to the first quarterly press briefing for the calendar year. An IMF mission to conduct the 7th review of performance under the Extended Fund Facility agreement ended yesterday. It concluded that all the targets for the quantitative criteria and structural benchmarks were met and that we remain on track in terms of the forward-looking elements of the review. Our own assessment of Jamaica's recent economic performance and outlook is similar and is reflected in the quarterly monetary policy report being presented today.

The very large positive shock from lower international oil prices together with continued success in implementing the government's economic reform programme, especially the steadfast application of fiscal discipline and continued gains in price competitiveness, present a major opportunity for the private sector. Monetary policy and fiscal policy are delivering macroeconomic stability. The stage has been set and the foundation is being laid; it is now time to build.

Stability has been evident in the inflation rate falling faster than anticipated. Inflation in January was minus 0.5 per cent, a third consecutive month of deflation, and resulted in an annual rate of 5.3 per cent. This is significantly lower than the 9.3 per cent recorded for January last year. There is now a strong likelihood that inflation for FY2014/15 will fall below the target range of 7.0 to 9.0 per cent. The stage has been set and the foundation is being laid; it is now time to build.

Stability has also been evident in the current account of the balance of payments where the deficit has continued to narrow faster than expected. The current account deficit is now expected to fall below 5.5 per cent of GDP this fiscal year, down from 8.5 per cent of GDP in the previous year, and is projected to contract even further over the next 12 months. This good performance is the result of fiscal consolidation, improvements in price competitiveness and the fall in international oil prices.

The exchange rate has adjusted to make us more price competitive and is now expected to move at a slower rate than in the previous two years. I say this with an awareness of the apprehension that exists to varying degrees regarding the prospect of further depreciation of the Jamaican dollar. Historically, the danger of depreciation has resulted from the large and debilitating pass-through effect on domestic prices that was big enough to wipe out whatever gains had been made in competitiveness. Today, however, the pass-through effect has diminished significantly. We have seen this in the fact that, despite the depreciation of the last two years, inflation has continued to decline. We have thereby been able to hold on to the gains that were made in competitiveness. The benefit of this is being felt on the bottom line of businesses engaged in exporting goods and services (including tourism) or in competitive import substitution.

Exchange rate depreciation in the current environment is mainly a correction to compensate for the difference in inflation between us and our trading partners. I am encouraged to be able to report that we are making good progress towards our long-term objective of eliminating this difference completely. With this in mind, there should be less concern about occasional episodes of somewhat faster depreciation that may occur from time to time once it is understood that they will have a more moderate effect on domestic prices. The stage has been set and the foundation is being laid; it is now time to build.

Let me now highlight some of the issues covered in the Quarterly Monetary Policy Report.

The Outlook for Inflation

Inflation over the next 4 quarters should be in the range of 5.5 to 7.5 per cent in the context of continued moderation in energy-related costs. With this forecast, though, it is important to take note that inflation during the course of the year is likely to fall well below the range for the full year before rising later in the year.

To summarise the risks to this outlook: lower-than-expected international commodity prices and weaker-than-expected domestic demand could cause inflation to end up below the forecast range. Initiatives geared at an expansion in domestic agriculture could also result in lower prices for these crops. Conversely, persistently high inflation expectations among businesses and the potential for a stronger than anticipated pass-through from exchange rate depreciation could cause inflation to end up higher than the forecast range.

Foreign Exchange and Net International Reserves

Jamaica Dollar depreciation against the US dollar slowed to 7.8 per cent over the 12 months ending December 2014 from 8.8 per cent over the 12 months ending September 2014. This continued the trend of slowing depreciation since the September 2013 quarter and is consistent with the decline in the net demand for current account transactions that we have seen in the balance of payments. Notably, net international reserves were just over US$2 billion at the end of the December quarter, with gross reserves representing over 18 weeks of imports of goods and services, comfortably above our targets.

Growth

Real economic activity for the December 2014 quarter is estimated to have contracted marginally as a result of the lingering effect of drought conditions on *Agriculture, Forestry & Fishin*g as well as production disruptions in *Mining & Quarrying* and *Manufacture*. However, growth in the economy is expected to strengthen for the remainder of the fiscal year and over the medium term. We are expecting real GDP to expand within the range of 0.0 to 1.0 per cent for FY2014/15 and to strengthen in FY2015/16 to a range of 1.5 to 2.5 per cent. Growth in FY2015/16 should be primarily driven by *Agriculture, Forestry & Fishing, Mining & Quarrying,* and *Hotels & Restaurants*.

Monetary Policy

The Bank's monetary policy stance has been generally accommodative. Our assessment of the current macroeconomic environment and particularly the outlook for inflation over the near-term suggests that this stance remains appropriate. We will, however, seek to react early to the emergence of price pressures that could threaten the inflation target.

Conclusion

In concluding, I see progress of the economic reform programme and the benevolence of low oil prices presenting a unique economic opportunity for Jamaica today. But we will benefit from this opportunity with growth and more and better jobs only if we succeed in enhancing productivity at all levels and this is what government's reform efforts and private sector enterprise should be focussed on. In support of these efforts, the Bank's monetary policy stance will remain generally accommodative but alert to react swiftly whenever necessary in order to ensure that inflation remains low and the external accounts remain in sustainable balance.

Thank you.