Quarterly Press Briefing

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18 November 2014

PATH TO ECONOMIC TRANSFORMATION

Good morning.

Today Bank of Jamaica releases its Quarterly Monetary Policy Report for the September 2014 quarter.

At our last press conference, I indicated that the economy was on a path of necessary economic transformation and that, so far, Jamaica had demonstrated resilience to inflationary shocks. In the face of many challenges, the resilience has persisted while significant progress continues to be made on the broader macroeconomic front.

The recently concluded IMF review mission has confirmed that the macroeconomic programme is on track. All the targets under the programme for the September 2014 quarter were met. Upon consideration and approval by the International Monetary Fund Executive Board, Jamaica is set to receive the seventh drawdown of about US$68 million under the Extended Fund Facility arrangement.

This positive news comes on the heels of the release of the World Bank’s 2015 Ease of Doing Business Report. Jamaica’s ranking improved by 27 places to 58 out of 189 countries and was ranked first among Caribbean countries. This is an encouraging reflection of the government’s economic reforms.

Notwithstanding this progress, we have not yet reached where we are going. There is still work to be done in a number of areas.

On the fiscal side, where Jamaica needs to be is to consistently run fiscal surpluses and pay down the government’s debt. We are not there yet and the fiscal authorities need to continue the reform agenda aimed at improving tax collection while making the tax system easier to use for the taxpayer.

On the monetary side, where we want to be is to have an inflation rate no higher than that of Jamaica's trading partners, in the region of 3% to 4%. We are not there yet and so Bank of Jamaica must remain focused on lowering inflation so that we get there.

Low inflation is important to the economy for a number of reasons. One reason arises from the simple fact that as long as domestic inflation remains much above that of Jamaica's main trading partners, the exchange rate will continue to face pressure to depreciate. Without the depreciation, Jamaican firms and farms will struggle to remain competitive against foreign firms selling their goods and services to the domestic market and in our export markets. And yet, it is also true that adjusting the exchange rate itself creates challenges for all economic stakeholders, including many of the same firms facing the struggle to maintain competitiveness. Reconciling these factors represents a conundrum; but it is a conundrum with a sure and sustainable way out. The way out of the conundrum is to lower the rate of inflation and thereby remove this source of pressure on the exchange rate. This is what we are doing.

Let me now give you a brief update on the performance during the September 2014 quarter of some of the main macroeconomic indicators.

Inflation

The resilience of Jamaica's inflation environment was tested in the September 2014 quarter as the effect of drought conditions proved to be more severe than anticipated, driving sharper increases in the prices of some domestic agriculture items. As a result, annual inflation rose to 9.0% at the end of the quarter, compared with 8.0% at the end of the previous quarter.

However, even with this shock, the Bank's current forecast indicates that inflation for FY 2014/15 will remain in the target range of 7.0% to 9.0%. Inflationary pressures are expected to subside with recovery in the production of short-term crops. In fact, for October, inflation has already slowed to 8.2% as agricultural production picked up and prices declined. Inflation is expected to hover around this level for the rest of the fiscal year. Continued declines in international commodity prices, particularly oil, as well as the restraint created by continued relatively weak domestic demand, are expected to moderate inflationary impulses that may arise from the OUR’s consideration of the application for an increase in JPSCo’s tariff.

Balance of Payments

The balance of payments is expected to continue the improving trend. The current account deficit contracted by 2.4 percentage points of GDP to 8.4% of GDP in fiscal year 2013/14 and indications are that the deficit will decline further to 6.3% of GDP for the current fiscal year. Preliminary data show that tourist arrivals for the fiscal year to end October rose by 5.3%, stronger than the 3.2% recorded for the corresponding period of FY2013/14. We are also seeing a strong recovery in net remittance flows, which grew by 5.0% for the first four months of this fiscal year.

Real GDP & Employment

Real GDP is estimated to have contracted in the September 2014 quarter largely due to the temporary impact of the drought on agricultural crops and on the production of water and this will adversely affect the fiscal year growth rate. The economy is, however, projected to recover at an accelerating pace over the next four quarters, starting in December 2014. The unemployment rate, which fell in July 2014 to 13.8% from 15.4% the year before, is expected to continue to fall in tandem.

Monetary Policy and Interest Rates

The Bank’s policy stance during the September quarter continued to be consistent with its mandate of supporting sustainable, non-inflationary growth in the economy. The policy rate was held at 5.75% during the quarter, while stronger assurances were provided to deposit-taking institutions (“DTIs”) that liquidity will be made available when they want it.In this regard, the Bank refined its liquidity management framework during the quarter by removing limits on overnight funding available under the Standing Liquidity Facility, increasing the allocation at the Bi-monthly Repurchase Operations and streamlining the interest rates charged for these facilities. For more details on this initiative, please look at the article in the QMPR on *Changes to the Liquidity Management Framework for Deposit-taking Institutions and Developments in the Money Market*.

Greater assurance on the part of DTIs about their liquidity is expected to translate into increased private sector credit, higher levels of investment and stronger growth in the economy. To give you an idea of the scale of the Bank's commitment, in the calendar year to September, the Bank carried out special operations that added J$172 billion in direct injections of liquidity to DTIs. However, at this point, the results are not encouraging as private sector credit grew by only 4.8% for the 12 months ending September 2014 and 0.9% in the September quarter alone.

In contrast, gross foreign direct investment ("FDI") inflows doubled to 5.3% of GDP in the last fiscal year (FY2013/14) from 2%-3% per annum in the three preceding fiscal years. FDI inflows are forecast to be similarly strong in FY2014/15. It is worth observing that this relative buoyancy in externally driven investments occurred before Jamaica demonstrated its capacity for sustained commitment to the programme of difficult reforms. This bodes well for future growth as investors take account of the mounting evidence of the government's commitment to growth-oriented reforms.

Outlook

In conclusion, the improving outlook for inflation provides support for continuation of the accommodative stance of monetary policy in the near and medium term. The Bank, though, can be expected to react to emerging threats to the inflation target should they arise.

Thank you.