



Quarterly Press Briefing

Evolving favourable economic conditions

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Good morning, ladies and gentlemen.

Today the Bank releases the Quarterly Monetary Policy Report (“QMPR”) for the July to September 2016 quarter.

I will start, however, with a more recent development that will help to define and guide the path ahead for the next three years. Last week, the Executive Board of the IMF approved a new precautionary Stand-By Arrangement (“SBA”) for Jamaica. This SBA immediately replaces the Extended Fund Facility arrangement (“EFF”) that had been in place since 2013. The SBA formalises the Fund’s support for Jamaica’s economic programme as set out in the Government’s Letter of Intent. We have provided a box in the QMPR that summarises the key macroeconomic elements of the SBA.

This agreement is significant in a number of ways. One that I wish to emphasise is that it provides powerful additional assurance to prospective investors that, without adding to the debt burden, a very substantial cache of resources is available to the country from the IMF in the event that it is needed. This begins immediately with access to US\$411.9 million (SDR300.1 million) now available at our sole discretion.

Jamaica’s economic fundamentals are positive. The balance on the current account of the balance of payments for the June 2016 quarter is estimated to have been a very small deficit of US\$13 million. This compares to the deficit in the June 2015 quarter of US\$118 million. For this fiscal year, Bank of Jamaica projects that the current account deficit will be equivalent to about 3.0% of GDP which, although higher than the 1.8% of the previous fiscal year, is much lower than the 10%-14% experienced in the years before the EFF programme and this slight increase is reflective of imports related to the economic recovery that is underway. We are also projecting gross FDI inflows at close to the US\$950 million or 6.6% of GDP experienced last year (FY2015/16), reflective of continued investment in tourism and infrastructure.

Inflation continues to track below 2.0%. At September 2016, annual inflation was

1.9%, falling from 2.5% at June 2016. Core inflation at September also fell, representing the eighth consecutive quarter of deceleration. The Bank is forecasting that headline inflation will end this calendar year below 2.0% before tracking back up to the lower bound of the target range of 4.5% to 6.5% by March 2017. This rise in the March 2017 quarter is simply the statistical consequence of dropping from the 12-month series the deflation that occurred in the months of January, February and March of 2016. Actual price increases between now and March are projected to continue at a steady rate averaging about 0.4% per month.

No doubt as a result, inflation expectations also continue to be anchored in low, single digits. In the inflation expectations survey conducted in August 2016, expected inflation 12 months ahead declined to 3.3% from 3.8% in the May 2016 survey. This is encouraging as expectations continue to be below our inflation target.

Conditions in the real sector continue to evolve favourably. GDP growth is estimated to have accelerated in the September 2016 quarter, relative to the June 2016 quarter, and represents the seventh consecutive quarterly expansion. Over the medium-term, growth will strengthen against the background of recovery in key industries and higher foreign and domestic investments, reflected by strong FDI inflows and continued growth in credit to the private sector.

Commercial bank credit to the private sector continues to grow strongly. For the 12 months to September 2016, bank credit grew by 14.3% relative to an expansion of 7.8% for the year to September 2015. In real terms, this reflected sturdy credit growth of 12.2%, compared with 5.9% for the same period in 2015. The expansion in credit brought the ratio of private sector credit to GDP at September 2016 to 24% of GDP, up from 22% at September 2015 and represented an increase in loans to both individuals and businesses. In particular, business loans expanded by 14.0% relative to 8.1% for September 2015. We note the positive role that innovations such as credit bureaus are making and we have included a box on credit reporting developments in the QMPR.

Achieving macroeconomic stability is at the heart of the Bank's mandate. Stability is

good but is not an end in itself. What it provides is the foundation for sustained economic growth and job creation. Sustained economic growth and job creation in turn are achieved as the result of a period of sustained investment by private firms and individuals. Jamaicans should continue to focus on productive, import-substituting and export-oriented activities. The environment is ripe with opportunities.

Yet, despite the clear evidence of the gathering momentum of economic progress, there are voices expressing concern at the movements in the exchange rate this year. For the fiscal year to last Friday, the exchange rate depreciated by 5.9%, faster than the 4.2% recorded for the same period in the previous fiscal year. Most of the difference took place in April and May in an episode that we discussed extensively at our briefing three months ago. Since then, the market has returned to more orderly trading patterns with the last three weeks in fact reflecting a small appreciation in the Jamaican dollar against the US dollar.

I have said this in the past and I want to repeat it now for emphasis: the Jamaican dollar at the current exchange rate is, in our judgment, fairly valued. Economic conditions support this assessment. And Bank of Jamaica has been active in the market in support of this conclusion.

The Bank has sold US\$475 million to the market through its intervention window during the first six months of the fiscal year. We stand ready to sell foreign exchange to the market to meet any shortfall that threatens stability.

The Bank is temporarily tightening Jamaican dollar liquidity in the short end of the market in order to influence the choices that portfolio managers make.

The Bank has exercised its option to repay early some US\$255 million of US dollar CDs by giving the contractually required three months' notice. We will be taking steps to persuade holders of these US dollar CDs to take back their money even earlier.

The Bank has begun raising the foreign currency cash reserve requirements in order to

reduce the incentive for holding foreign currency deposits. After rising in stages by three percentage points, the foreign currency cash reserve requirement will reach 12% of prescribed liabilities in December, equal to the cash reserve requirement for Jamaican dollars.

More recently, the Minister of Finance and the Public Service requested that a foreign exchange market working group be formed to address the depreciation of the Jamaican dollar. Against the background of the Government's policy of maintaining a flexible, market-determined exchange rate, which remains unchanged, the working group, which I chair, is a consultative body, representing a cross-section of participants in the foreign exchange market plus relevant public officials, and is intended to facilitate greater two-way communication between public officials and the private sector. The working group has been meeting and so far the consultations have been constructive. In the interest of market transparency, if any non-public information is provided to the members of the working group it will also be made available to all market participants. I will also from time to time be providing direct briefings to all market participants, with the first of these taking place two Fridays ago.

Thank you.