



Quarterly Press Briefing

CURRENT ACCOUNT DEFICIT AT TWENTY-YEAR LOW

Brian Wynter
Governor,
Bank of Jamaica

Hilton Rose Hall
Montego Bay

19 May 2017

Good morning, ladies and gentlemen.

It is my distinct pleasure to release Bank of Jamaica's Quarterly Monetary Policy Report ("QMPR") for the January to March 2017 quarter and to speak to you from the heart of Jamaica's tourism capital, the "republic" of Montego Bay.

In a country whose tradition in tourism is second to none, the term 'tourism capital' is not to be taken lightly. From Henry Morgan to Al Capone, from Prince Harry to Harry Styles, from Winston Churchill to John F Kennedy, from Marilyn Munroe to Beyoncé and starting with Christopher Columbus, Jamaica has long been one of those places that everybody who was anybody wanted to visit. Montego Bay has been a large part of that tradition since the 19th Century and so, although I am not sure I qualify as 'anybody', being a tourist in Montego Bay today has added value for me because I am aware of that history.

I am here to celebrate with you today because stakeholders in Jamaican tourism have never been more optimistic, and with good reason. We have just enjoyed the country's best-ever winter tourist season. In a context where tourism usually earns over US\$2 billion annually, this year we have already earned over US\$1 billion in the winter season alone. At the 2016 World Travel Awards, in addition to awards for the Caribbean's leading destination, leading hotel brand and even leading personality, Jamaica was also named the world's leading cruise destination. Overall, Jamaica expects a record 4.2 million visitors this year and we are already talking about breaching the 5-million mark very soon. It is indeed fitting that in November this year, Montego Bay and Jamaica, in association with the World Bank Group, will host the *United Nations World Tourism Organization Global Conference on Partnerships for Jobs and Inclusive Growth through Sustainable Tourism*.

As part of the Bank's outreach programme to communicate more directly, I come to you today because we are aware that Kingston is not Jamaica. I am also fully aware that, important as tourism is, our tourism capital itself is about much more than tourism and that Montego Bay has produced and hosted some of the country's leading business persons in several other areas of major economic activity. It all counts and it is all important. The figures I am about to reveal tell of success in tourism but they tell of success in several other areas too. Indeed, the motto of the Montego Bay Chamber of Commerce is "Together We Build" and that is the message I bring today.

Historically, ladies and gentlemen, one of the great obstacles to Jamaica's economic development has been the crowding out of private sector investment by excessive government borrowing. At the last quarterly press conference, I declared that, as a result of greater fiscal discipline and effective debt management, the era of crowding out was over. Three months later, I can now show that another historical economic imbalance is showing enormous improvement.

Jamaica has long lived beyond its means by spending much more than it earns, and the gap shows up in the current account of the balance of payments. Since the 1990's and until the last fiscal year, we grew accustomed to significant deficits, often close to or more than 10 per cent of GDP.

For the December 2016 quarter, however, the current account deficit of the balance of payments was a mere 0.3 per cent of GDP (US\$38.1 million). That's half a percentage point of GDP (or US\$77 million) better than the deficit for the December 2015 quarter. Bank of Jamaica now estimates the current account deficit for fiscal year 2016/17 at 1.8 per cent of GDP, which is below the 2.0 per cent of GDP deficit for the previous fiscal year. In fact, **we have to go back about 20 years in Jamaica's history to find another deficit this low. Furthermore, if we subtract imports financed by foreign direct investment inflows, this will be the second consecutive year when Jamaica earns more in foreign exchange than it spends.**

Goods exports for the quarter rose strongly by about 9 per cent (US\$26 million) for the first time in nearly four years, reflected almost entirely in non-traditional exports. Food exports from a wide variety of items, including ackee, fruits, baked products and sauces, rose by 26 per cent, while earnings from tobacco and beverages not including rum rose by 112 per cent. Earnings from an already strong tourism sector also rose significantly by 5.4 per cent during the quarter on the back of a 6.1 per cent improvement in stopover arrivals.

Ladies and Gentlemen, we hope you find this news as encouraging as we do. Over the past few years, Jamaica has made the sacrifice by implementing difficult structural reforms. Along with corrections in external price-competitiveness, the improvements we are seeing in the current account are undoubtedly the fruit of that sacrifice. The World Bank ranking for Jamaica's ease of doing business improved in 2016 by 27 places from 94 in 2013. Much of this movement was related to Jamaica's initiatives to improve the private sector's access to credit and their ability to more easily pay taxes, get approvals for new projects and register new businesses. More recently, initiatives

aimed at reducing the cost of electricity and improving import and export processes at the ports have also started to bear fruit.

In keeping with these improving conditions, Bank of Jamaica continues to maintain a generally accommodative monetary policy stance and, during the review quarter, the Bank lowered its signal rate by 25 bases points to 4.75 per cent on 05 April 2017.

It is against this background that commercial bank weighted average lending rates have fallen from 17.8 per cent at the start of the economic reform programme in 2013 to a little under 15.0 per cent in February 2017. We believe that bank lending rates can go lower still but note that private sector credit is already expanding and, in annual terms, did so by 15.9 per cent in February 2017. When we account for the addition of the new commercial bank to the system, private sector credit actually grew by more than 30.7 per cent over the same period. We saw growth in both business and personal loans, which signals the likelihood of stronger growth in the real economy.

Turning to inflation, Bank of Jamaica's target for fiscal year 2017/18 is 4.0 per cent to 6.0 per cent. The inflation outlook for the year should reflect one-off price increases for fuel, electricity and transportation in the context of recently announced taxes. STATIN reports that consumer prices rose by 0.3 per cent in the month of April, which brought annual inflation to 4.8 per cent. The inflation in April partly reflected the impact of tax changes on the cost of transportation and alcoholic beverages. For the rest of the fiscal year, Bank of Jamaica expects monthly inflation rates similar to what was seen in April.

Ladies and gentlemen, we have entered a new paradigm of economic development. No longer is the economy characterised by large balance of payments imbalances, unstable fiscal deficits, high inflation and high interest rates. Instead we have broad macroeconomic stability, low inflation, a sustainable current account, a stable and competitive exchange rate, falling interest rates and expanding credit to businesses and households.

Even though challenges remain, these conditions present a virtual red carpet for private sector investment. The figures don't lie and, especially here in Montego Bay, the signs are all around us. We need all our entrepreneurs to see it, understand it, believe it, believe it will last and have the faith to start investing or invest even more. We need the private sector, especially those engaged in

tourism, exports and competitive import substitution, to keep on doing what the private sector does best: create more jobs and more sustainable growth.

I expect the business people of Montego Bay to perhaps understand this imperative more than most others because Montego Bay, once the poorest part of the island, was built on faith. People thought Butch Stewart was mad when he bought his first hotel here in 1981 with no tourism experience. In 1967, when Tony Hart undertook the massive project of the Montego Freeport that we now take for granted, some people also thought he was mad. When Montego Bay matriarchs Ethel Hart and Maybelle Ewen entered the hotel business in the early 1900's, Montego Bay did not yet have an airport and American visitors travelled for the better part of a week to get here by steamship from New York. In 1908, when visitors were coming to Jamaica mainly for the healing air in our cool hills, it was the Montego Bay Citizens' Association which was brazen enough to start advertising Montego Bay with sun, sand and sea and the claim that Doctor's Cave Beach was destined to become "the favourite bathing resort of the Western Hemisphere".

When American Oscar Hammerstein wrote the famous words, "The hills are alive with the sound of music" for the iconic musical, *The Sound of Music* in 1959, he was staying at his Jamaican property Highland House, right here in Montego Bay. Now, in 2017, the hills are reverberating with the rhythms of economic possibilities because Jamaica is no longer a long shot; it is now the smart money.

Thank you, ladies and gentlemen.