



## **Quarterly Press Briefing**

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**Governor**

Bank of Jamaica

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Good morning, ladies and gentlemen.

Today the Bank releases the Quarterly Monetary Policy Report for the April to June 2016 quarter.

Jamaica has been experiencing a period of sustained macroeconomic stability. Achieving this is at the heart of the Bank's mandate and it is a very good thing. But it 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.

By banks expanding credit to private firms and individuals, they provide the fuel to drive the sustained investment that is needed. I am pleased to report, therefore, that private sector credit is now growing at levels not seen since 2013.

Twelve-month growth in private sector credit was 14.4 per cent in June 2016 compared to 4.5 per cent the year before and accelerating from 10.7 per cent in March 2016. In real terms, that is, stripping out the distorting effect of inflation, there was double-digit growth in private sector credit of 11.4 per cent in the 12 months to June 2016 compared to virtually no growth at all the year before. Contrary to prior annual trends, more of this acceleration was in lending to businesses rather than to households.

This robust private sector credit performance is indicative of a welcome increase in economic activity. It is also consistent with lenders' expectations for an increase in the demand for and the supply of credit, as shown in the most recent Credit Conditions Survey (for the March 2016 quarter).

General improvement in the macroeconomic environment has also supported other forms of domestic financing, including equity financing, which continue to reflect buoyant growth. In this quarter's report, the Bank examines the increasing use of corporate bond financing to increase domestic capacity and stimulate further economic growth and the creation of jobs.

The increase in the rate of private sector credit expansion has been supported by the Bank's accommodative monetary policy stance. Generally lower levels of interest rates and responsive liquidity conditions have supported credit growth and we have seen declines in interest rates in all categories of private sector loans during the review quarter.

During the quarter, the Bank reduced the policy rate (the interest rate on the 30-day certificate of deposit) by 25 basis points to five per cent flat. The policy rate is now the lowest on record.

The accommodative stance of monetary policy continues to be appropriate in the context of the good news coming in on the inflation front. Twelve-month inflation decelerated to 2.5 per cent in June 2016 from 3.0 per cent in March 2016 and the latest information from STATIN confirmed a further deceleration to 2.1 per cent in July 2016. The low inflation outcomes reflect moderate increases in domestic agricultural prices partially offset by declines in the cost of energy and transport-related services. Notably, core inflation also remains subdued, reflecting lower exchange rate pass-through and the effects of continued fiscal restraint and cautious monetary policy adjustments.

Inflation expectations in the country continue to portray inflation firmly anchored in low single digits. In the Bank's most recent Inflation Expectations Survey, conducted in May 2016, expected inflation 12 months ahead declined to 3.8 per cent from 4.3 per cent in the February 2016 survey. This is encouraging as expectations for inflation in the future continue to be less than the fiscal year target of 4.5 per cent to 6.5 per cent. Turning to the Bank's forecast, we are projecting that inflation will rise to meet the target by the end of the fiscal year with an uptick in inflation in the second half of the fiscal year due to a moderate increase in commodity prices. Our objective in the medium term is to return inflation closer to where it is now, in line with inflation in Jamaica's main trading partners. From the evidence, this is not a "stretch" goal but in fact a goal that is now patently achievable, a goal that the public can reasonably expect should be achieved by their monetary authority.

Ladies and gentlemen, these and other developments point to an improving economy that is on its way to sustainable rates of growth and job creation. This is underpinned by exceptionally strong performance under the IMF-supported programme. An IMF mission recently concluded the 13<sup>th</sup> quarterly review which, pending IMF board approval, assessed that all quantitative targets and structural benchmarks for the June 2016 quarter were met and that appropriate policies and plans were in place to achieve programme targets. As the Extended Fund Facility agreement with the IMF nears its end, the government has signalled that it intends to enter into a successor arrangement with the IMF. Jamaica can be expected to exploit the opportunity provided by a successor arrangement to concretize the substantial macroeconomic gains made to date and boost investment. The country also needs to press ahead with financial inclusion strategies aimed, among other things, at widening access to credit for Jamaicans.

Bank of Jamaica is committed to safeguarding monetary stability, thereby providing an enabling environment to fuel sustained credit expansion and raise the rate of GDP growth. In this regard, I will close by indicating that in the near future the Bank will be announcing further improvements to its policy framework aimed at strengthening the transmission of monetary policy.

Thank you.