
Statement on Foreign Exchange Market Working Group

*Governor Brian Wynter
Bank of Jamaica
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Good afternoon, everyone. Thank you for attending this meeting at such short notice. I called this meeting because I want to be sure that you and all of the market are made fully aware of what is happening with the newly-established Foreign Exchange Market Working Group, which had its first meeting this morning.

The Minister of Finance and the Public Service requested that a working group be formed to formulate proposals to address the continued depreciation of the Jamaican dollar. As you already know, the Government's policy has been the maintenance of a flexible market-determined exchange rate. That policy remains unchanged.

The purpose of the working group is to be an advisory group that represents a wide cross-section of participants in the financial markets plus relevant public officials. It includes representatives of the banking, cambio, securities dealer, insurance and pensions sectors. This has numerous advantages for the communication and sharing of information, especially of impending developments that may affect market dynamics and public confidence. It also offers a stage for public officials to reinforce the direction of policy implementation, which is the firmest foundation for influencing the decisions of investors and financial advisers.

Now, you would all have taken note that this group involves active participants in the market. I will ensure that no information shared with them will result in any unfair advantage to these participants. In the course of this process there may be some information provided to the working group that is not publicly available or not readily accessible in that form. When that occurs, the information will be shared with the market. For example, additional information about the foreign exchange market was shared in this morning's meeting. That has already been made available to you on our website and we have provided you with copies this afternoon for

your convenience. Also, I will endeavour to provide timely notifications to you, the market, as we go along.

The working group met for the first time this morning. There were representatives from each sector present and, after some housekeeping we were able to begin the process of consultation. We will be meeting again next week and I would like to say that we would be very happy to receive views from anyone wishing to contribute to this process.

With those details out of the way, let me use this opportunity to repeat – again – that, despite agreed technical assessment that the Jamaican dollar is already fairly valued, the exchange rate has displayed a level of movement that is excessive and is not supported by the prevailing economic conditions.

I have said this before on a number of occasions but I believe it requires repeating. Jamaica has made major transformations under the economic reform programme, including fiscal adjustments to reduce Jamaica's debt/GDP ratio by over 20 percentage points (FY12/13=145% to FY15/16=124% and this year expected to be 120%) and to reduce the current account deficit on the balance of payments from 9.9% to 1.8%. These changes are impressive by any international measure and have left us with an economy with now strengthening GDP and employment growth, with inflation and interest rates at record lows.

These conditions are very positive indeed and have been recognised by our international partners. This has been attested to by the recent staff-level agreement with the IMF for a new programme with huge financial support.

Yet, domestically, there has been a sense of crisis because of the performance of a single variable: the exchange rate.

Now, some have regarded the exchange rate movement as a sign of lack of confidence, arising perhaps from the view that Jamaica's good economic performance, like the improvement in the current account of the balance of payments, is mainly due to the good fortune of low oil

prices of the last year or two. However, if you examine inflation, for example, it has fallen from 9.0% in the 12 months to September 2014 to 1.8% at September 2015 and 1.9% at September 2016. When you look at the measure of inflation that excludes the impact of oil, inflation has fallen from 8.5% in the 12 months to September 2014 to 4.5% at September 2015 and 2.1% at September 2016. Macroeconomic policies have in fact, with much sacrifice, supported a profound economic transformation that is delivering the favourable conditions that I have been describing.

If you examine what the data shows about the impact of the exchange rate, the measured exchange rate pass-through to inflation has fallen from close to 100% in the 1990s to a little over 50% at the beginning of the EFF agreement a few years ago to its current level of just over 30% and falling.

This is a remarkable change. Yet we still seem to be looking backwards instead of forwards. Changing this orientation ought to be an important objective for us and for the working group. I believe that one of the most important reasons to work so hard to provide macroeconomic stability is to provide to all persons a secure basis for the confidence that they need in order to focus on this forward-looking decision orientation in their business and personal investment opportunities.

Thank you. The floor is now open for your questions and comments.