Brian Wynter: The year ahead – the view from the bank

Address by Mr Brian Wynter, Governor of the Bank of Jamaica, to the American Chamber of Commerce (AMCHAM) Forum, Kingston, 25 March 2011.

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Ladies and Gentlemen:

For as long as most of us can remember, Jamaica has been hamstrung by persistent macroeconomic problems. They are well-known but they bear repetition: low GDP growth, adverse fiscal and debt dynamics and the related unsustainable imbalances. These problems were exacerbated by the global economic and financial crises which commenced in 2008. In order to break this cycle, the country took some bold steps in 2010 which have so far resulted in successes in key performance indicators.

In January 2010, the Government successfully negotiated the Jamaica Debt Exchange ("JDX") with local investors resulting in an astonishing rate of participation. This paved the way for the signing of a Stand-by Arrangement with the International Monetary Fund ("IMF-SBA") which entailed Jamaica giving a commitment to an economic path and a set of reforms that would establish and maintain the fundamentals that are conducive to sustainable growth and development. The key objectives of the resulting medium-term programme are to set Jamaica's debt to GDP ratio on a downward trajectory, entrench fiscal discipline and accountability and raise the growth rate of real GDP. In this context, monetary policy is aimed at bringing inflation down to mid-single digit levels and maintaining it there for the medium-term in the context of a flexible exchange rate.

These commitments enabled the Government to access unprecedented levels of funding from the multilateral financial institutions. A combined total of US$2.4 billion, amounting to about 20 per cent of GDP, is expected to be received by Jamaica over the programme's two-year period to provide budgetary support and meet balance of payments needs.

So, what is the progress to date? Well, so far we have seen the materialisation of a number of the goals envisioned by the medium-term programme.

It was envisioned that the fiscal policy strategy and the resulting stable medium-term outlook would create the conditions for substantial and sustained reductions in interest rates. This would be achieved by consolidating public finances which would set the stage for lower deficits and progressively lower financing needs.

And, indeed, this has been the result.

For fiscal year 2011/12, we are expecting that the process of fiscal consolidation will continue. The Government has shown its commitment to this process by continuing to adjust expenditure where the revenues fall below budget. Additionally, the Government has demonstrated its commitment to fiscal transformation with the commencement of the phased implementation of the Central Treasury Management System, which will result in more efficient management of public sector finances.

The process to divest the Government of public bodies that are a drag on the budget has achieved major milestones and is continuing. With these developments, there is going to be a continuing decline in the fiscal deficit and the debt ratios. Lower demand for financing from the domestic market by the Government will continue to result in more and more resources being available for private sector credit.

Repeated success in meeting the quantitative targets under the IMF-SBA has led to increasing confidence about the prospects for the economy. We saw this in the strong preference for Jamaica Dollar assets during the fiscal year and the steady appreciation in the exchange rate. The Bank ended 2010 with strong net international reserves ("NIR") of

US$2.17 billion, an increase of US$442.1 million for the year. Gross international reserves, at US$2.98 billion, represented 23.7 weeks of projected goods and services imports.

In the context of the relatively stable market conditions during the year, the Bank lowered the interest rate on its 30-day certificate of deposit by 375 basis points to 6.75 per cent by end-February 2011. In addition, the Bank increased the pool of loanable funds in the system by reducing the cash reserve requirement for both Jamaica Dollar and foreign currency deposits. Market-determined interest rates also trended down during the year at a faster pace than the Central Bank's policy rate.

Despite emerging challenges from rising international commodity prices, headline inflation continued its progress towards the achievement of the target for the fiscal year of 7.5 to 9.5 per cent. STATIN released its inflation report for February ten days ago although this may come as a surprise to you as the news media appear to have concluded that the results in the report are not sufficiently newsworthy to be reported in a timely manner. Interestingly, I read a statement in one of today's newspapers that food prices rose by 25 per cent last year in an environment where the minimum wage is J$4,500 per week. Well, not exactly. In the same inflation report for February that was released by STATIN ten days ago, prices in the Food category recorded an increase of 7.8 per cent for the 12-month period ending in February 2011.

Headline inflation for the month of February was minus 0.4 per cent. With January's decline of 0.2 per cent, inflation for the 11 months of the fiscal year-to-date is 6.7 per cent. It is now quite clear that the target for fiscal year 2010/11 is likely to be comfortably achieved.

At the same time, there was a weaker than projected performance of the economy in terms of GDP growth last year. This came in the context of adverse local and international weather conditions (Tropical Storm Nicole, ash clouds in Europe) and the temporary fall-out that the economy experienced, particularly the tourism sector, from the disturbance in West Kingston in May.

However, looking forward to the next 12 months, it is expected that with lower interest rates and an abundance of credit resources there will be an increase in investments in the productive sectors of the economy. In this regard, the Central Bank is projecting gradual recovery in the coming fiscal year with GDP growth expected to be in the range of 1.0 to 2.0 per cent. The initiatives being spearheaded by the Planning Institute of Jamaica to identify and synchronize high impact projects that enhance inner city communities, improve the economic infrastructure and protect the environment should result in a further acceleration of growth as they come on stream.

Ladies and gentlemen, interest rates in the money market are now at the lowest we have seen in several decades. This is not a phenomenon to pass over lightly. It has no doubt been brought about in part by the confidence exhibited by the multilateral financial institutions in Jamaica's economic programme, a confidence that has been affirmed by the credit rating agencies. Of greater significance, confidence in the country's economic prospects has been demonstrated by the willingness of local investors to accept lower and lower rates on their investments. Foreign investors have also shared this optimism by their overwhelming participation in the global bond that was offered in February.

With the policies that were undertaken in 2010, Jamaica is being set firmly on a path for sustainable growth and development. The on-going reforms in the financial sector will further increase its stability and soundness. Stable financial markets will reassure investors about the safety of their investments. Ladies and gentlemen, fiscal year 2011/12 is set to be a year of accelerated progress and I urge you to be a part of the change.

Thank you.