Brian Wynter: Jamaica's recent economic path and prospects – the view from the Bank

Address by Mr Brian Wynter, Governor of the Bank of Jamaica, to Montego Bay Chamber of Commerce & Industry, Breakfast Forum, Montego Bay, 21 April 2011.

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Ladies and Gentlemen:

Thank you for inviting me to address your function this morning. It is interesting that this is taking place just one week before the Minister of Finance presents his plans to finance the Government's expenditures for fiscal year 2011/12. In addition to the obvious interest that we all have in the outcome of this annual national event, there is another reason to take special note of it and that is to see in action the early fruits of the focus on reforming the entire budget process that represents a major step in a series of policy initiatives aimed at reversing the trends in Jamaica's indebtedness, entrenching fiscal discipline and accountability and engineering sustainable GDP growth. This is an enormous challenge made more acute by, first, the severe negative impact of the global financial crisis of 2008/09 on our export markets and, more recently, by the large increases in international commodity prices over the last nine months or so.

Let me tell you what has happened so far in this series of initiatives. In January last year, the Government negotiated the highly successful Jamaica Debt Exchange with local investors. This, together with a large tax package, public sector wage restraint and aggressive commitments to off-loading loss-making public sector entities, paved the way for the signing of a Stand-by Agreement with the International Monetary Fund. This in turn unlocked access for the Government to unprecedented levels of funding from the multilateral financial institutions for fiscal and balance of payments support. These developments induced a restoration of investor confidence that has permitted the central bank to ease monetary policy progressively thereby bringing interest rates on money market instruments and government bonds to levels not seen in Jamaica in decades. The same dynamic, supported by monetary policy and fiscal policy initiatives, created conditions for inflation expectations, which research has shown is the most significant driver of inflation in Jamaica, to fall dramatically.

As the year ended, headline inflation for the fiscal year was 7.8 per cent, close to the bottom of the target range of 7.5 per cent to 9.5 per cent. Last week, STATIN released its inflation report for March, which saw consumer prices increasing by 1.1 per cent for the month. This matched the central bank's projection exactly and reflected the impact of increased oil prices on electricity and transportation-related costs as well as the announced increase in minimum wages. More broadly, for the year, world prices for commodities increased. For example, oil prices rose by 18 per cent and the price of corn rose by 31 per cent. This is worth stressing so that we can appreciate that the success of the policies in reducing inflation from 13.3 per cent the year before to 7.8 per cent last year (a reduction of 5.5 percentage points) was achieved in an environment of sharply higher world commodity prices.

The success in bringing down inflation occurred, though, in a weaker economy than had originally been projected. Adverse local and international weather conditions (Tropical Storm Nicole, ash clouds in Europe) and the temporary fall-out that the economy experienced, particularly in the tourism sector, from the disturbances in West Kingston in May played a part. Overall, however, the tourism sector remained the brighter star. Stopover tourist arrivals for the full fiscal year are estimated to have grown in the region of 3.5 per cent to 4.0 per cent. Cruise passenger arrivals, of which about a third come through the Montego Bay port, recorded growth of approximately 5.0 per cent following three successive years of decline.

The industry is now poised to grow substantially in the coming year because of the opening of the new port in Falmouth.

To round out the picture, the balance of payments left us with even stronger net international reserves. The NIR ended the year at US$2.5 billion, up US$800 million for the year. Gross reserves ended at US$3.4 billion, representing nearly 23 weeks of projected imports of goods and services. This performance was underpinned by heightened confidence about the prospects for the economy as the government demonstrated repeated success in meeting the quantitative targets under the agreement with the IMF. We saw this confidence reflected in the strong preference for Jamaica Dollar assets which influenced the steady appreciation in the exchange rate that we experienced last year.

What is our prognosis for the next fiscal year? We are expecting that the process of fiscal consolidation will continue, even while the government embarks on a path to induce growth. We are currently expecting inflation for the fiscal year to fall further even in the face of rising commodity prices. The fall will not be as pronounced as the 5.5 percentage points fall that we saw in the 2010/11 fiscal year. The uncertainties unleashed on the global economy in the form of highly volatile and rising commodity prices will make a repeat of the extent of last year's success all but impossible. But we will be striving for a meaningful reduction all the same, a reduction that is aimed at taking us decisively along the path towards our longer term goal for Jamaica, which is the average inflation rate of our major trading partners (currently about 4 per cent).

We are also expecting that, with lower inflation and interest rates and an abundance of credit resources in the economy, there will be a smooth handover of the growth driver from state-led spending to private investment. In this regard, Bank of Jamaica has been projecting a moderate economic recovery in the current fiscal year.

Thank you.