Brian Wynter: Implications of the medium-term macroeconomic programme for expanding Jamaica's exports

Remarks by Mr Brian Wynter, Governor of the Bank of Jamaica, at Jamaica's Exporters' Association Awards Banquet, Kingston, 11 June 2013.

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Good Evening, Ladies and Gentlemen.

Thank you for inviting me to share this special event with you as you recognise and celebrate the achievements of your members.

With Jamaica's entry into a four-year Extended Fund Facility ("EFF") with the IMF, we are meeting at the start of a new chapter in Jamaica's economic life. The JEA's celebratory theme, "Exporting is Everybody's Business", supports the objective of the Government's medium-term macroeconomic programme which is the achievement of sustainable improvement in economic growth and per capita incomes in Jamaica. Against this background, I would like to outline the economic reforms in the EFF programme which are aimed at enhancing the business environment and competitiveness. I will also say something about what I believe this new programme will mean for businesses.

Last month, the IMF approved a four-year Extended Fund Facility for Jamaica of approximately US$932 million. In addition, the World Bank and the Inter-American Development Bank publicly announced that they will provide loans amounting to US$510 million each to support Jamaica's economic programme.

The new borrowing arrangement was preceded by the development of a plan to redress the unsustainable economic imbalances that have constrained economic growth over the past three decades. The construction of this programme was very detailed and intensive, involving several rounds of comprehensive assessment and reassessment with the IMF over a 12-month period to ensure that the commitments and targets are do-able and would yield the desired outcome. The programme seeks to implement far-reaching reforms and, as a consequence, it extends over a period of four years. More importantly, a key feature of the programme is that the major reforms are front-loaded, that is, they have to be implemented mostly in the first year of the programme.

Another element aimed at reducing implementation risk is the establishment of the Economic Programme Oversight Committee ("EPOC"). The work of this body introduces greater transparency to the process and enhances public information and confidence. EPOC, as you know, is comprised mainly of representatives from the private sector, financial institutions, trade unions, farmers and small businesses who will closely monitor performance under the programme.

The programme is built on three pillars.

The first is fiscal sustainability which means implementing the necessary revenue and expenditure measures as well as a public debt management strategy that will enable the Government to achieve a primary surplus equivalent to 7.5 per cent of GDP in each of the next four years. By bringing the fiscal accounts rapidly into balance, the government's need to borrow is being sharply curtailed thus permitting a steady reduction in debt levels to below 100 per cent of GDP by 2020 (from nearly 150 per cent currently). This, balanced fiscal accounts, will be a highly unusual circumstance in Jamaica's modern economic experience and it bears careful contemplation as to its likely consequences, which are beneficial, I should add. The policy actions necessary to achieve this have already been taken and are now in place.

Further, the Government has committed to adopt a legally binding fiscal rule in this fiscal year in order to provide assurance to us all that a sustainable budgetary balance will be incorporated into future annual budgets long after the EFF has been successfully completed.

The second pillar of the programme is built on the Government's commitment to structural reforms which will lead to more efficient public financial management. These include tax reform and improved tax administration as well as reform of the public sector and social spending. A major step in the tax reform is the harmonisation of the tax treatment of charities across tax types and the removal of the Minister of Finance's discretion to grant waivers to charitable organisations. The Government has also undertaken to table an Omnibus Tax Incentive Bill in Parliament to eliminate ministerial discretion to grant tax relief and put in place a transparent regime for limited tax incentives. These reforms are aimed at reducing lost revenue and creating a more performance-driven system of tax incentives for businesses in Jamaica.

Given the drive for sustainable expansion in real output, the third pillar is a growth strategy that is based on catalytic, strategic public and private investments and improved competitiveness. In this regard, the Government is committed to taking legislative and administrative measures to create an enabling business environment conducive to investment and growth. Within this fiscal year, the Government plans to table an Insolvency Bill and a Secured Obligations Bill in Parliament, streamline the business registration process through the use of a multi-purpose registration instrument and commence the process to establish a Port Community System which will electronically integrate and streamline export and import procedures.

The Government also plans to move as quickly as possible to facilitate flexible work arrangements and improve access to training in skills required for enhancing productivity in the economy. Further, there is a commitment to implement energy sector initiatives to achieve diversification in the sources of fuel and facilitate energy conservation in order to reduce the cost of energy to the economy and more so to the productive sector. As you would have heard from recent presentations in Parliament, these initiatives are well underway.

These reforms and commitments are all aimed at improving the competitiveness of Jamaica's goods and services. Accordingly, the macroeconomic programme aims to reduce the hindrances to economic growth such as the macroeconomic instability caused by high and unsustainable fiscal balances and debt. These factors have limited the Government's ability to tackle social issues, including the improvement of education and training and the reduction of crime.

For the Central Bank, our primary role is to maintain price stability and financial system stability. Bank of Jamaica is committed to maintaining single-digit inflation over the medium term with the long-term objective of reducing inflation to the level of our major trading partners. Bank of Jamaica is also committed to a flexible exchange rate regime consistent with enhancing the competitiveness of the Jamaican economy. The combination of low inflation and exchange rate flexibility is a valuable tool in maintaining the competitiveness of our export sector. In addition, the current historically low interest rates are conducive to stronger investment and growth than we have had in the past.

What then does the implementation of this programme mean for businesses, small, medium or large?

First, a flexible and competitive exchange rate will enhance the ability of Jamaican businesses to compete in both the export markets and the domestic market. A flexible exchange rate is an exchange rate that responds to market forces. A competitive exchange rate is an exchange rate that adjusts so as to at least account for the difference between Jamaica's inflation and that of our trading partners. The Bank is aware of the concerns about recent movements in the exchange rate. However, let me reassure you that the depreciation thus far has been in keeping with our expectations and the policy objective of ensuring that goods and services produced locally can be sold at competitive prices in the global market. This is absolutely essential for export-led growth.

The recent movement in the exchange rate also comes against a background where the Bank has been steadily and deliberately rebuilding the net international reserves. Bank of Jamaica had already halted the decline in reserves which, with reason, was a source of considerable concern in all corners of our society during the last two years. We have now made good headway in the rebuilding of the reserves which bring comfort and confidence not only to our domestic stakeholders but also to international investors who continue to have strong interest in Jamaica and its many investment opportunities.

Already we are receiving reports of companies that have been benefiting from the adjustment in the exchange rate and others who are repositioning to capitalise on the opportunities that are being created by a more competitive Jamaican dollar. These include a company successfully competing for orders in a market it was unable previously to get into and a medical practice making capital improvements in order to provide first-rate services locally more conveniently and at more competitive rates than is available overseas. I want to encourage everyone to look carefully at the opportunities that the new environment is providing.

Nonetheless, we remain watchful over the potential short-term negative impact of exchange rate movements on the standard of living. The monetary and fiscal policy mix will therefore seek to restrain the pass-through to inflation. However, the only way to sustainably mitigate the impact of depreciation on our standard of living is through meaningful gains in productivity and stronger economic growth.

The successful implementation of the programme will also have a positive impact on businesses as the sustained reduction in public debt and the fiscal deficit will lead, and quite soon, I should add, to a “crowding in” of resources for the productive sector, that is, an expansion in available financing to businesses and on better terms. An environment favourable to exports should contribute to an increase in investment, economic growth and job creation, particularly within the export sector. Moreover, the on-going fiscal consolidation has contributed to a compression in domestic demand, which therefore means that businesses will have to redirect their focus more towards external markets.

The Government’s commitment to improve the ease of doing business, including tax and incentive reforms and energy diversification, are designed to improve the ability of local businesses to compete successfully with foreign producers. Overall, the programme strategically and deliberately creates a macroeconomic environment that is conducive to strong and sustainable export growth.

In closing, I encourage the JEA members to continue the process of retooling and looking at new areas for diversification of exports. I also urge you to seize to the fullest the opportunities that this programme affords.

Thank you.