Brian Wynter: Bank of Jamaica modernisation and independence - a new central bank for the new Jamaican economy

Speech by Mr Brian Wynter, Governor of the Bank of Jamaica, at the 3rd Caribbean Finance & Investment Forum "Bank of Jamaica Modernisation and Independence - a new central bank for the new Jamaican economy", organised by LatinFinance, Kingston, 1 November 2018.

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Mr Chairman, Mr Taimur Ahmad, Chief Executive Officer, LatinFinance, distinguished ladies and gentlemen, good afternoon.

Last week, the Government tabled in Parliament a Bill to amend the Bank of Jamaica Act and related legislation. If passed, this would make Bank of Jamaica the first central bank in the English-speaking Caribbean to have legislative independence. It is interesting to note that this potentially seismic shift in Jamaica's economic fortunes was broadly met by quizzical faces and comments like: "I thought they were already independent".

To shed some light on why people reacted in this way and why I have referred to it as a potentially seismic shift, I will sketch a map of Bank of Jamaica's transformation and draw a picture of the intended destination. I would like to show you, in short, why we are doing what we are doing.

Bank of Jamaica has enjoyed de facto independence since the 1990s and the process of modernisation can perhaps be dated back to the early 2000s. Modernisation began with the Bank operating with what the IMF refers to as an inflation-targeting 'lite' regime.

Inflation-targeting is a monetary policy regime where the inflation objective is announced to the public and the central bank uses various monetary policy tools to guide inflation outcomes towards the preannounced inflation objective.

The Bank was initially able to reduce inflation from 9.2 percent in 1997 to 7.3 percent in 2002 using a base money targeting approach. Since then, the Bank transitioned to using interest rates as the primary operating tool. If you examine the success of that transition, particularly in the last decade or so, you would note that we are now in an era of lower inflation that has been more stable and more predictable than it was in the past. At September 2018, 12-month inflation was 4.3 per cent, within the Bank's target of 4.0 per cent to 6.0 per cent, having fallen to as low as 1.7 per cent in 2016.

In effect, the Bank has been operating independently using modern approaches for quite a long time and it has already been quite successful, although this has occurred without the full measures being in place for accountability and transparency. By improving these, we can do better.

In addition, the Bank has strengthened and modernised its supervisory capabilities. Full supervisory autonomy was established in line with the Basel Core Principles with the implementation in 2015 of the Banking Services Act, 2014. Statutory responsibility for the maintenance of overall financial system stability, that is, responsibility for macroprudential surveillance and measures, was added to the Bank's mandate through amendments to the Bank of Jamaica Act in 2015.

So it is not surprising that some people think that Bank of Jamaica is already independent even though it is not.

Now, I would like to outline why I believe that establishing de jure central bank independence could represent a seismic shift in Jamaica's economic fortunes.

Returning to my map, since 2013, Jamaica has been pursuing economic reform programmes with the support of the International Monetary Fund. The main pillars of these programmes have been (i) structural reforms to boost growth and employment; (ii) actions to improve price and non-price competitiveness; and (iii) sizable fiscal adjustments, supported by extensive fiscal reforms.

The outcome has been the best macroeconomic environment in Jamaica for generations. Jamaica currently has low interest rates, low inflation and declining unemployment while output growth is accelerating.

Investors have taken note of changes in Jamaica's fiscal management. Yields on Government of Jamaica global bonds have been trading below their emerging market counterparts even as uncertainties in emerging markets have been increasing. And GOJ Jamaican-dollar bond yields, unusually, have been even lower than yields on US-dollar-denominated global bonds. You probably can proffer a number of reasons why domestic bond yields have been lower than global bond yields, but, whatever explanation you favour, you have to conclude that the sure money is currently on Jamaica.

This is the background against which the proposals for modernising the central bank should be seen. For those of you who have not yet had a chance to examine the Bill, let me give you a few highlights.

The Bank will be given a clear legal mandate that identifies the maintenance of price stability and financial stability as the Bank's principal objectives, with price stability as the primary objective.

To oversee the delivery of the mandate, there will be a change to the tenure of board members, staggering their appointments and making the tenure long enough to provide for personal independence and the development of sufficient experience and capabilities to discharge the functions of oversight and accountability successfully. Importantly, the tenure of board members will be longer than the governor's term of appointment. In addition, many of the powers currently vested in the person of the governor will be divested to, or shared with, the board and the statutory committees, such as the Monetary Policy Committee, similar to the leading central banks in advanced and emerging economies. And the Bank will be prohibited from providing credit to the government, except in times of declared national emergency.

Another important feature will be a redefinition of capital to establish a dynamic capital framework and this will be accompanied by an injection of capital that will ensure that the Bank has the financial capacity to pursue its mandate without recourse to the Government's budget. For the first time in decades, Jamaica will have an adequately capitalised central bank and, for the first time in our history, it will have provisions in place that are designed to maintain capital adequacy into the future.

So, ladies and gentlemen, in 2013 Jamaica took on and won the short-term battle for macroeconomic stability. This story is, by now, well known. By 2017, Jamaica proved that it has been winning the medium-term war for macroeconomic stability with a demonstrably mature approach to fiscal and monetary management. Jamaica is now emerging from those battles and is assembling the long-term institutional and legislative platform that will allow Jamaica to shed these metaphors of war, conflict and struggle in macroeconomic management and achieve the transition from surviving to thriving. That is the destination that the country is aiming for with Bank of Jamaica modernisation and independence.

Thank you.