**Statement by the Governor of Bank of Jamaica**

Meeting of the Public Administration and Appropriations Committee

19 October 2016

**Inflation** for September 2016 was 0.5%, which took annual inflation at September to 1.9%. This is slightly above the record 1.8% for both August 2016 and September 2015, but much lower than the 9.0% at September 2014. Some have expressed the view that the fall in inflation we have seen is due entirely to the global drop in oil prices. However, the measure of inflation excluding oil would have fallen steadily to \*2.1% at September 2016, relative to 4.5% last year and the 8.5% for the previous year. **Looking forward, inflation for FY2016/17 is expected to be within the Bank’s target range of 4.5% to 6.5%.**

**This low inflation environment is coinciding with higher growth and job creation.** Gross Domestic Product (GDP) grew by 1.4% in the June 2016 quarter, up from an average of 0.8% for the previous two quarters. In line with the increasing growth momentum in the economy, Jamaica added on a net basis more than 40,000 new jobs by April 2016 compared with a year earlier.

**BOJ’s accommodative monetary policy stance is designed to support growth,** and has translated into increases in bank credit to the private sector. This has translated into annual growth of 14.3% in in the stock of commercial bank credit to the private sector in August 2016. In real terms, private sector credit grew by 12.3%. This buoyant credit expansion was reflected an increase in the supply of credit to both businesses (16.1%) and individuals (12.8%). As the PAAC members are aware, the BSA transferred responsibility for issuing banking licence from the Minister to a new statutory committee at Bank of Jamaica called the Supervisory Committee. I can advise that in the last 12 months, **Bank of Jamaica approved the grant of three banking licences to qualified applicants.** Two are upgrades to become commercial banks from a merchant bank and a building society, the third is an acquisition of an existing licensee by a new investor. This widening of the playing field should help to promote more competition among banks and increase lending to consumers and businesses.

**There have been concerns in recent times about the exchange rate**. For the fiscal year to 14 October 2016, the exchange rate depreciated by 5.6% compared with 3.9% for the same period in the previous fiscal year. The fastest pace of movement in the Jamaican dollar over this period occurred in April 2016 (0.9%) and May (1.8%) with subsequent movements reflecting a more moderate rate of adjustment. Especially in a context of a current account of the balance of payments that is now in surplus after deducting imports funded by FDI, Bank of Jamaica is of the view that the dollar is fairly valued and that the rate of depreciation in the first two months of the fiscal year was excessive and not supported by prevailing economic conditions at the time. There was no shortage of foreign exchange and the pressures in the foreign exchange market in the early part of the fiscal year were largely influenced by specific large transactions in the capital markets. **In order to ensure orderly conditions in the market, the Bank has intervened where necessary,** selling approximately US$475 million over the first 6 months of the fiscal year, compared with US$465 million in the same period of the previous fiscal year. The more recent movements of the dollar appear to be related to increased investment activity, which is a good sign.

**From the foregoing you will note that despite the movement in the exchange rate, inflation has remained low.** This is because the pass through from the exchange rate to domestic prices has been falling.

**Economic growth has strengthened in the Jamaican economy since the start of FY2016/17** and is expected to strengthen further over the medium-term, driven by initiatives in mining, energy, ports, tourism, construction, communication, BPO, agriculture and manufacturing. Low inflationary expectations coupled with relatively stable international commodity prices should result in inflation of 4.5% to 5.5% in the medium-term. The current account deficit should remain at sustainable levels. A staff level agreement with the IMF was announced last week amounting to $1.7 billion over the next three years, powerful support indeed for Jamaica’s efforts to reduce risk as we continue to make ourselves more and more attractive to domestic and foreign investors. **While there is still much to do, the foundation has been laid, the seeds are being planted and it is time for the private sector to invest and lead the way to higher levels of economic growth in Jamaica**.

*\*This Figure was incorrectly written as 2.3% and has since been corrected to 2.1%*