

***Prospects for Economic Growth in Jamaica***

**Prepared Remarks for Shipping Association of Jamaica**

**Lunch & Learn Seminar**

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Good Afternoon Ladies and Gentlemen.

The subject for discussion, *Prospects for Economic Growth in Jamaica,* is timely on two counts. First, the economic recovery in Jamaica is now under way and, second, the shipping sector in Jamaica, an important direct and indirect contributor to overall growth, is poised for major expansion over the next few years.

In looking at the prospects for growth in 2014, I must set them in the context of the developments that occurred in 2013. Early in the fiscal year, Jamaica entered into a four-year Extended Fund Facility (“EFF”) agreement with the International Monetary Fund (“IMF”) designed to support the government’s medium-term economic programme. The programme aims to raise real GDP and per capita income progressively and sustainably. The growth agenda is anchored in a comprehensive set of fiscal and monetary policies and structural reforms aimed at creating a stable or, to put it another way, a predictable and resilient macroeconomic environment that allows investors to plan. One of the key medium-term targets in the programme is the reduction of the government’s debt ratio from 147 per cent of GDP last year to less than 100 per cent by 2020. The binding fiscal rules now before Parliament aim to take this measure down further to 60 per cent of GDP by 2026.

To date, the country has successfully met all prior actions, quantitative targets and structural benchmarks for the programme. In fact, just this morning, the IMF’s Executive Board formally endorsed the assessment by IMF staff that the targets and structural benchmarks for the most recent quarter (December 2013) were met and that Jamaica’s policy implementation under the EFF remains strong.This is encouraging.

The Jamaican economy began to recover with an expansion of 0.5 per cent in GDP for the September 2013 quarter. The Bank has estimated stronger growth for each of the following quarters (December and March) in the range of 1.0 per cent to 2.0 per cent, largely reflecting increased output in Agriculture, Forestry & Fishing, Mining & Quarrying, Construction and Hotels & Restaurants.

The buoyancy in Agriculture, Forestry & Fishing reflects favourable weather conditions, supported by the impact of the recently developed agro-parks. The performance of Mining & Quarrying reflects greater capacity utilisation while growth in the Construction sector reflects road building and repairs and a number of hotel expansions. Hotels & Restaurants and other sectors involved in tourism benefitted from improved world demand conditions and increased airlift from Europe.

The Government has been meeting or exceeding its quarterly fiscal targets. This level of fiscal restraint has, among other things, eliminated the need for incremental domestic financing and has helped to keep interest rates relatively low. At the same time, Bank of Jamaica has been rebuilding the net international reserves (“NIR”) and anticipates that, by the end of March, the NIR will exceed US$1.1 billion, ahead of the target under the EFF.

Yesterday, STATIN announced that headline inflation for February was 0.1 per cent, which brings inflation for the fiscal year to date to 7.2 per cent. It is now clear that inflation for the fiscal year is likely to come in at, or below, the bottom of the target range of 8.5 per cent to 10.5 per cent. This is a noteworthy and, I should say, a very welcome outcome given the depreciation in the exchange rate and the increases that took place in bus fares and utility rates earlier in the year. The combination of lower inflation and exchange rate depreciation has improved Jamaica’s price competitiveness and has assisted in a significant reduction in the estimated current account deficit on the balance of payments to about 10.0 per cent of GDP for this fiscal year from 12.5 per cent of GDP last year.

Global economic growth is generally expected to strengthen next year. Given this and an expectation that there will be stable or moderately declining international commodity prices, we are anticipating that the positive trends in the domestic economy will continue in the 2014/2015 fiscal year. We expect moderately stronger GDP growth in the range of 1.0 per cent to 2.0 per cent driven by the same sectors that led the process in 2013/2014. Consistent with Bank of Jamaica’s monetary policy objective, inflation for 2014/2015 is expected to remain in single digits. The deficit on the current account of the balance of payments is projected to fall below 8.0 per cent of GDP.

Jamaica has already introduced far-reaching legislation which will support stronger growth going forward. Further reforms are also planned, including:

* more reforms to the tax system, including limiting exemptions and lowering tax rates;
* boosting competitiveness through increased training and certification of the labour force; and
* making the approval process for construction and development more efficient by introducing a new system.

This year should also see the start of construction of the 360MW power plant and the continuation of initiatives to increase energy diversification which, in the long run, will assist in eliminating a significant obstacle to growth.

With respect to shipping and port activities, Jamaica’s location in the world’s major shipping lanes has made it a candidate for significant development. In an effort to attract investment in the area of logistics and connectivity, the Government is making advances in creating the framework for special economic zones. The shipping sector is at the core of this initiative and is therefore critical to its success. I anticipate that the sector will position itself to take the fullest advantage of the opportunities which are being created.

When I look ahead, here is what I see:

I see, overall, increasingly bright prospects for 2014 and beyond based on a momentum that is evident and growing as well as the progress being made in implementing plans for expansion in key areas.

I see a significant push by Government to provide the infrastructure and environment to enable greater private sector investment.

I see the combination of a stronger global economy and improved fundamentals in the domestic economy adding to investor confidence and leading to greater levels of investment and job creation, thereby enhancing economic welfare in 2014.

There are challenges, economic, social and managerial, but these have been recognised and are being tackled. Mechanisms to enable consensus-building and participation in meeting the challenges have been introduced and have shown their worth.

In this context, it is important for investors to move from a wait-and-see attitude - waiting for all of the stars to line up perfectly - to an orientation that will seize the initiative and take advantage of the opportunities that now lie before them.

Thank you.