Quarterly Press Briefing

Interest Rates and Credit

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Good morning, ladies and gentlemen.

I am pleased to release Bank of Jamaica's Quarterly Monetary Policy Report ("QMPR") for the April to June 2017 quarter.

Monetary Policy

Bank of Jamaica is continuing its accommodative monetary policy stance. This policy posture reflects the run of very low inflation over the last fiscal year and the Bank's forecast that its inflation target for the current fiscal year will be met.

On 01 July 2017, the Bank transitioned the policy rate to the rate paid on overnight deposits from the rate paid on 30-day certificates of deposit. This is a refinement of our policy operations and not a change in monetary policy. This refinement should improve the monetary transmission mechanism and over time allow for lower market interest rates, particularly lending rates.

With respect to lending rates, new loan rates have declined over the past year and should fall further. From Bank of Jamaica's Survey of Credit Conditions, rates on new loans offered to businesses fell by more than 2.5 percentage points over the year to March 2017.

However, ladies and gentlemen, interest rates on bank loans in Jamaica, while falling, are nonetheless still too high. For business lending, if we adjust to remove the effect of inflation, lending rates at March were around 7.5 per cent. This means that businesses that cannot generate a real rate of return above this level cannot successfully approach a financial institution for a loan. This must certainly exclude many otherwise viable business opportunities in Jamaica.

One of the main factors that affected interest rates during most of Jamaica's modern history was Government's crowding out of credit to the private sector. This was reversed in recent years in the context of Jamaica's Fiscal Responsibility Framework and the fiscal consolidation that led to, in FY2016/17, a small fiscal deficit of 0.2 per cent of GDP and a very large primary surplus of 7.6 per cent of GDP. The settling in of the institutional reform represented by the Fiscal Responsibility Framework (fiscal rules) and the continuation of the broader fiscal reforms, taken together with the recent track record, gives to investors greater and greater assurance that crowding out will not re-emerge.

With crowding out removed, it is easier to see that the large spread between lending and deposit interest rates is a symptom of inadequate competitive behaviour in the market for loans. It also highlights the problem of poor information and information asymmetry. Yet, lately, we have been seeing increased competition with new commercial bank licensees commencing operations and growing issuances of corporate bonds. As competition increases, and as the effects of the still new credit bureaus flow through the system and increase the availability of quality credit information, we will see these spreads decline further. Anecdotal information received by Bank of Jamaica suggests that credit bureaus in Jamaica are already improving the credit behaviour of borrowers. We have provided an assessment of this in Box 4 in the Report.

At May 2017, preliminary data indicate that the stock of commercial bank credit to the private sector was higher by 31.1 per cent, compared with a year ago. When the impact of a new entrant to the commercial banking sector is excluded, private sector credit grew by 11.0 per cent over the period, a level that continues the strong credit growth that we have been seeing albeit somewhat weaker than the expansion of 14.4 per cent recorded at May 2016.

We continue to see growth in both business and personal loans. Excluding the impact of the new entrant, business lending at May 2017 expanded by 13.6 per cent, slightly higher than the 13.0 per cent at May 2016. Personal loans expanded at a steady annual rate of 12.2 per cent at May 2017, compared with 12.2 per cent a year earlier.

Ladies and gentlemen, in the type of economy we are building, one led by the export of goods and services and competitive import-substitution, the private sector engine of growth is lubricated by credit. Many private sector entities are already on their way, hence the positive economic numbers, but we must push forward with the financial reform agenda to allow others to join them.

Inflation

Jamaica recorded an annual inflation rate of 4.4 per cent in June 2017 and the rate is on track to fall within the Bank's target range of 4.0 per cent to 6.0 per cent for FY2017/18. The outturn for June was slightly above the 4.1 per cent at March 2017. This uptick is in line with what we previously announced and partly reflected the impact on agricultural food prices of the flood rains in May 2017 and some changes in the prices of goods and services because of the tax package implemented at the start of the fiscal year. The effects on food prices of the May rains are expected to continue to be felt for a few more months before normalizing before the end of the fiscal year.

Other Economic Development

With regard to output, for the March 2017 quarter, GDP rose by 0.1 per cent, which brought growth for the full FY2016/17 to 1.3 per cent. This was higher than the 1.0 per cent and the 0.2 per cent of FY2015/16 and FY2014/15, respectively. STATIN also recently reported that the unemployment rate at April 2017 fell to 12.2 per cent from 13.7 per cent at April 2016. The growth in employment was broad-based, which is encouraging. It also reflected strong increases in employment in the industry grouping "Real Estate Renting & Business Activities", which includes the Business Process Outsourcing (BPO) subsector.

The current account deficit of the balance of payments for the March 2017 quarter was moderate and sustainable at 0.6 per cent of GDP (or US$81.0 million). This represented a decline of approximately one and a half percentage points of GDP (or US$220 million), compared with the surplus for the March 2016 quarter and was primarily due to higher oil prices. Exports for the quarter continued to grow strongly, some of which was related to growth in fuel exports. However, non-fuel non-traditional exports, which I referred to at my last press conference, continued to grow significantly.

Bank of Jamaica now estimates that the current account deficit for FY2016/17 was 2.5 per cent of GDP, which is above the 1.9 per cent of GDP deficit for the previous fiscal year. If we deduct imports financed by foreign direct investment (FDI), which was estimated at 6.1 per cent of GDP, there was a surplus for the second consecutive fiscal year.

Foreign Exchange Market

In upgrading and modernising the foreign currency trading framework, Bank of Jamaica introduced a new tool called the Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT) on 26 July 2017. B-FXITT is a tool for the sale and purchase by the Bank of foreign exchange to and from market intermediaries, ie, authorised dealers and cambios. Having conducted three standard sale operations to date (with a fourth underway as we speak), I can report that the new tool appears to be settling down well. The Bank is currently designing the purchase side of B-FXITT and will announce the date of implementation at the appropriate time.

Thank you.