

**Quarterly Press Briefing**

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Bank of Jamaica

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Good Morning Ladies and Gentlemen:

Welcome to the first of the Bank’s quarterly briefings for 2012. This morning we are releasing the Quarterly Monetary Policy Report for the December 2011 quarter. As is customary, I will highlight the major economic developments in the review quarter and share the Bank’s perspectives on how we see economic developments unfolding in the near term. The special article in this report looks at Productivity, Growth and Inflation, an important subject as Jamaica strives to achieve sustainable growth and low stable inflation.

**Developments in the December 2011 Quarter**

**Global Developments**

Growth in the global economy is estimated to have slowed in the December 2011 quarter reflecting a slowdown in some advanced and emerging market economies. In particular, it is estimated that there was slower growth in the Euro area and Japan. The deceleration in growth in these economies was largely influenced by the adverse impact of the European debt crisis on demand conditions. However, growth in the United States of America (USA) is estimated to have accelerated in the review quarter, reflecting increases in consumption and investment expenditure. In light of the estimate for the December quarter, global growth for 2011 is adjudged to have been slower than originally expected. The forecast for global growth for the fiscal year 2011/12 is also a bit more pessimistic.

The prices of grains continued to fall on the international market in the December quarter, reflecting the impact of low global demand as well as favourable weather conditions in major producing countries. These factors are expected to continue to put downward pressure on grains prices in the near term. In contrast, the average price of crude oil rose by 4.8 per cent for the quarter in the context of better-than-expected macroeconomic conditions in the USA and falling inventory levels. The Bank is currently anticipating a moderation in the average price of crude oil for the near term. However, there are upside risks to this forecast. In particular, higher-than-expected demand in the USA associated with stronger growth in that economy could put upward pressure on prices. This could be exacerbated by the recent geo-political tensions, particularly related to Iran.

**Developments in the Domestic Economy**

The Bank maintained an unchanged policy stance in the December 2011 quarter. This was in the context of heightened uncertainty in both the external and domestic financial markets. The uncertainty in the international financial markets was largely related to the fear of an untidy resolution of the European debt crisis. For the domestic economy, there were concerns about the delay in re-engaging the International Monetary Fund (IMF) in discussions on Jamaica’s medium-term economic programme and uncertainty regarding the continuation of the process of fiscal consolidation which commenced in 2010. These reservations intensified with the then imminent general election. Against this background, the Bank maintained the interest rate payable on 30-day certificates of deposit at 6.25 per cent throughout the quarter.

For the review quarter, the performances of inflation and real GDP growth were largely in line with the forecasts we shared with you at the last briefing. In this regard, headline inflation was 1.3 per cent for the December 2011 quarter, within the forecast range of 1.0 per cent to 2.0 per cent. The outturn also compared favourably with the 2.1 per cent recorded for the September 2011 quarter as well as the average of 2.9 per cent for the five previous December quarters. Given the outturn for the December quarter, inflation for 2011 was 6.0 per cent, 5.7 percentage points lower than the outturn for 2010 and the lowest annual rate of general price increases since 2006. In addition, for 2011, all the Bank’s measures of underlying inflation were below the rates for 2010.

The relatively low inflation outturn for the review quarter largely reflected the dampening impact of increased supplies of some domestic agriculture commodities, reinforced by the protracted period of relative stability in the exchange rate (depreciation of 0.86 per cent for the calendar year) and the persistence of weak but improving domestic demand. In this regard, the inflationary impulses in the quarter emanated from higher prices for processed food and energy, associated with the increase in the cost of crude oil as well as seasonally higher demand during the Christmas holidays.

In tandem with the reduction in inflation, there was improvement in real sector activities in the review quarter. The Bank’s estimates suggest that real GDP growth strengthened within the range of 1.0 per cent to 2.0 per cent for the December 2011 quarter, relative to the estimated expansion of 0.6 per cent for the September quarter. The estimated performance in the review quarter primarily reflected strong expansion in ***Agriculture, Forestry & Fishing*** and ***Mining & Quarrying.***

**Outlook for the March 2012 Quarter & Fiscal Year 2011/12**

Domestic inflation is projected to be in the range of 1.0 per cent to 2.0 per cent for the March 2012 quarter, largely similar to the outturn for the December quarter. Underpinning this outlook is the forecast for a decline in imported inflation supported by relative stability in the exchange rate. In addition, inflation expectations and domestic capacity conditions are expected to be relatively stable. The inflation rate for January, as reported by the Statistical Institute of Jamaica (STATIN), was 0.4 per cent, similar to the rate in the previous two months. This outturn is in line with the Bank’s expectations for the month as well as the 1.0 per cent to 2.0 per cent forecast for the March 2012 quarter. Given the projection for the March 2012 quarter, the Bank has maintained its forecast for inflation in the target range of 6.0 per cent to 8.0 per cent for FY2011/12.

It should be noted that the outlook for inflation is supported by the results of the Bank’s Inflation Expectations Survey which is undertaken quarterly by STATIN. In particular, the survey undertaken in the December 2011 quarter indicated that the level of inflation expectations has remained fairly stable since the March 2011 quarter. In addition, respondents’ expectations of future depreciation in the exchange rate were largely consistent with the movement over the past year. These responses are encouraging as we gradually move towards an inflation targeting framework.

With respect to the forecast for output growth, the domestic economy is projected to expand in the range of 1.0 per cent to 2.0 per cent for the March 2012 quarter. This is predicated on projected expansions in ***Electricity*** ***& Water Supply, Hotels & Restaurants, Construction*** and ***Agriculture, Forestry & Fishing***. Given the forecast for the quarter, real GDP growth for the fiscal year is still expected to be in the range of 1.0 per cent to 2.0 per cent.

The forecast for growth in the March 2012 quarter and the fiscal year is supported by the relatively strong expansion in credit to the private sector from the commercial banks in the previous quarter. Private sector credit increased by 6.2 per cent in the December quarter, which was the fastest rate of growth since the June 2008 quarter. Of note, the growth in private sector credit mainly reflected expansion of 7.3 per cent in loans to the business sector, a reversal of the earlier trend where increases in personal loans were dominating the marginal growth in credit. The growth in credit was largely to the sectors being projected to record continued expansion for the rest of the fiscal year.

In addition to relatively strong growth in private sector credit, the Bank’s forecast for real GDP growth is reinforced by the results of the recent Inflation Expectations Survey which showed an improving trend in the business sector’s perception of present economic conditions. Further, the perception of future economic conditions showed a sharp recovery after a decline recorded in the survey which was done in the September 2011 quarter. These are encouraging signals which point to continued strengthening in real sector activities.

Finally, the expected performance of macroeconomic indicators for the near term continues to be largely positive. However, there are some uncertainties which threaten the inflation forecast. In particular, recent geo-political developments in the Middle East are a threat to the projection for crude oil prices. Additionally, while the possibility of stronger growth in the USA bodes well for Jamaica’s growth outlook, it could also lead to a higher price for crude oil, which has a pervasive impact on domestic inflation. Further, the weakness in the fiscal accounts and the possible measures that a correction will necessitate continue to generate concerns. However, the re-engagement of the IMF in discussions on Jamaica’s medium-term programme portends well for confidence and should alleviate some of the uncertainties in the domestic financial market.

Thank you.