Rotary Club of Kingston

Luncheon

Jamaica Pegasus Hotel
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Speech

Brian Wynter
Governor, Bank of Jamaica

Ladies and Gentlemen,

Let me thank the Rotary Club of Kingston for inviting me to speak at your weekly luncheon. I am indeed pleased to be talking to you at this very important time in Jamaica's history. This year may well be remembered as the year that Jamaica took some very bold steps to reverse the perennial problems of anaemic GDP growth, adverse debt dynamics and the related unsustainable economic imbalances all of which have been exacerbated by the global economic and financial crisis.

My intention this afternoon is to speak to you about the medium-term economic programme designed to address these problems. You all know by now that the programme has been endorsed by management of the IMF and the other multilateral financial institutions, all of whom have committed to providing the necessary support to enable us to move towards economic prosperity.

The medium-term economic programme represents a comprehensive plan to correct and redirect the outlook for inflation, fiscal deficits, public debt, interest rates and economic growth over the next four years.

Achieving the programme objectives means, amongst other things, the achievement of lasting single digit inflation. We expect inflation to fall to the six to seven per cent range by the end of fiscal year 2013/14. Monetary policy will focus on this objective. It will be assisted significantly by the elimination, over time, of the fiscal dominance which has burdened monetary policy over the years. This is to be accomplished through a fiscal strategy aimed at consolidation and substantial reductions in public sector expenditure. Major savings in the government's interest payments are expected to come initially through the Jamaica Debt Exchange which the Government has successfully negotiated with investors. While the final numbers are not yet in and may cause these estimates to vary somewhat, at the end of the current fiscal year (ending 31 March 2010), interest payments are projected at 16.2 per cent of GDP and we expect this to be reduced to 9.7 per cent of GDP by the end of fiscal year 2013/14.

As you all know, the government's debt exchange offer, the JDX, involved the voluntary par-for-par exchange of domestic bonds for lower coupon instruments with longer maturities. The government yesterday announced that holders of over 90 percent of eligible bonds have participated in the JDX offer. By any measure, this is a remarkable achievement for which we must recognize not only the tremendous support of the financial sector that holds the majority of the domestic debt but also the invaluable support by so many hardworking individual savers and investors who also chose to demonstrate their support for the JDX and, by extension, the economic programme.

The attainment of the inflation and fiscal targets over the medium term as well as gradual recovery in world demand is expected to lead to improvements in the balance of payments. Hence the current account deficit is expected to narrow significantly to about five per cent of GDP by fiscal year 2013/14 from about ten per cent of GDP in the current fiscal year. In this context, gross international reserves are targeted to increase to around US$2.6 billion by the end of fiscal year 2013/14 and remain at around 16 weeks of projected imports of goods and services over the medium term.

With the improvement in domestic and international economic conditions, a return to positive growth is expected by the end of the next fiscal year with marked improvements as we go forward over the medium term.

In the process of establishing a sound foundation for growth and development, some key reforms are to be undertaken this year. As you all know, fiscal targets of successive governments have often been derailed by financial weaknesses and inefficiencies in some public entities. Consequently, the Government has stated its commitment to public sector rationalisation - mergers, divestment and winding up of numerous non-core public entities - with a view to substantial efficiency gains beginning this year. In addition fiscal discipline and accountability is to be enshrined in law. Legislation to create a fiscal responsibility framework is to be taken to Parliament with a view to enactment before the end of this fiscal year.

The Government will also address improving financial system stability during this period with a series of regulatory reforms. This will include an omnibus banking law that will allow for more effective supervision of financial conglomerates to be passed into law in 2010, along with other legislative and regulatory amendments to strengthen financial sector supervisory tools and enhance the investment options open to individual investors. The Bank of Jamaica Act will also be amended to establish the legal framework to underpin the central bank's responsibility for overall financial system stability by December 2010.

The comprehensive public sector and financial sector reforms are core structural benchmarks under the IMF Stand-by Agreement.

Also to be established this year are a centralised treasury management system, a fixed income depository for government securities and a credit bureau. A Centralised Treasury Management System will bring responsibility for treasury management functions under one agency. Government securities will be dematerialised and held in the Bank of Jamaica's fixed income securities depository. This will provide for the electronic issuing and trading of government of Jamaica bonds, resulting in more efficient GOJ payment operations and a major reduction in settlement risk. The passing of the Credit Reporting Act in Parliament and the establishment of a credit bureau under the BOJ's regulatory framework are also expected this year. This credit reporting system will result in greater access to information on borrowers for prospective lenders which should contribute to greater access to credit for creditworthy businesses and individuals and further reductions in the price of loans, ie lending rates.

The outcomes for businesses to plan for will include lower interest income on securities, lower and less variable inflation and lower bank lending rates. Under the IMF Standby Agreement, Jamaica's economic programme is anchored in sustained low government interest rates and a stable macroeconomic environment. These outcomes are critical to the achievement of sustainable economic growth and development. Additionally, the economic programme is supported by far-reaching structural reforms to directly boost the strength and efficiency of the economy. Ultimately, as expressed in the Memorandum accompanying the Letter of Intent agreed with the IMF management (which was recently tabled in Parliament and can be found on the Bank of Jamaica's website), the programme and supporting policy reforms are intended to 'fundamentally transform the Jamaican economy and create the conditions for strong and sustained growth'. Indeed, 2010 may well be remembered as the year that Jamaica took bold steps to reverse the perennial problems of anaemic GDP growth, adverse debt dynamics and the related unsustainable economic imbalances which were exacerbated by the global economic and financial crisis. While only time will tell the results, surely it is a time for all of us to bend our resolve and the power of our commitment towards grasping the opportunity that this moment provides.

Thank you.

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