BANK OF JAMAICA

Quarterly Press Briefing

CROWDING OUT HAS ENDED

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Good morning, ladies and gentlemen.

Today, the Bank releases the Quarterly Monetary Policy Report ("QMPR") for the October to December 2016 quarter.

As we have discussed on many occasions, years, decades even, of feeding an insatiable appetite for borrowing by the government and its agencies diverted the flow of financial resources from the private sector and made investment harder and more costly, thus impeding growth. This is what we called crowding out. Private sector investment was crowded out by government borrowing. Now, with several quarters of "crowding in", we are witnessing a long overdue correction and **we can now consider that the era of Government crowding out has come to an end.**

Fiscal discipline and smart debt management have resulted in a fall in the debt to GDP ratio to 122 per cent at March 2016 from 145 per cent three years before. This performance contributed to Moody's upgrade of Jamaica's sovereign debt rating by two whole notches to B3 in November 2016. More recently, Fitch affirmed its single-B sovereign rating for Jamaica and Jamaica's sovereign risk premium has trended to all-time lows.

It is no surprise, then, that annual growth in commercial bank credit to the private sector grew by 14.8 per cent as at December 2016, significantly stronger than the 9.5 per cent recorded a year earlier. In real terms, loans grew by 12.8 per cent for 2016 compared to 5.7 per cent a year earlier.

This sustained increase in bank credit has supported the improved economic performance we have seen in eight consecutive quarters of expansion with GDP growing at 1.0 per cent to 2.0 per cent in the December 2016 quarter. The Labour Force Survey for October 2016 shows the unemployment rate down to 12.9 per cent from 13.5 per cent the year before. This represents the fifth consecutive quarter of employment growth which has delivered annual growth in new jobs of 3.0 per cent.

Sustainable and equitable economic growth accelerates when macroeconomic conditions are stable. This especially means that inflation must be as low as possible so that interest rates can fall to levels that make a greater set of private sector investment opportunities both viable and more attractive to investors. STATIN has reported inflation for the month of January at 0.4 per cent, which brings 12-month inflation to 2.6 per cent, up from 1.7 per cent at December 2016 but down from 3.7 per cent a year ago.

The uptick is entirely expected and presents no change to the current monetary conditions. As I have pointed out on a number of occasions during last year, the sub-2.0 per cent 12-month inflation of the last few months was a reflection of the unusual fall in prices, or deflation, recorded in the first four months of 2016 caused in the main by the agricultural recovery in that period compared to the same period in 2015. The 12-month inflation rate will continue to adjust upwards over the March 2017 quarter to end the fiscal year somewhat below the target range of 4.5 per cent to 6.5 per cent.

Over the next four quarters, inflation is projected to range between 4.0 per cent and 6.0 per cent as price pressures remain subdued at an average of approximately 0.4 per cent per month, similar to the monthly inflation rate in the last few months. The forecast is underpinned by oil prices that we expect to remain below US$60 per barrel on average. There is a box in the report with more on the international oil market.

With respect to the exchange rate, during the December quarter and in the period up to yesterday, the exchange rate began at J$128.27 to US$1.00 and then fluctuated to levels above J$129.00 and below J$128.00. This kind of up and down rate movement, which is quite different from what we have been used to in the past, will become more of a norm for us and should be taken as a signal of the need for market participants to pay more attention to the economic data that is reported and rely less on old rules of thumb which may have been useful guides in the past.

Bank of Jamaica notes the Government's objective to achieve 5 per cent GDP growth in four years, or '5 in 4'. Our contribution to this ambitious target is to maintain macroeconomic stability, the keystone for private sector-led economic growth and job creation. The Bank has also implemented structural reforms aimed at removing impediments to growth and has recently used its powers under the Banking Services Act to facilitate a lowering of the capital risk-weighting for bank loans guaranteed by the Development Bank of Jamaica's Credit Enhancement Facility. Bank of Jamaica is also playing a central role in other initiatives to improve access to finance, including the development of the National Financial Inclusion Strategy.

Finally, an IMF mission is currently in Jamaica to conduct the first review under the precautionary Stand-by Arrangement ("SBA"). Our assessments indicate that all the quantitative performance criteria and structural benchmarks for the review period have been met. This includes the target for non-borrowed reserves. Furthermore, inflation of 1.7 per cent for 2016 was within the SBA target range of 1.0 per cent to 9.0 per cent.

On completion of the review by the IMF's executive board, an additional amount of approximately US$170 million will be added to the sum available for Bank of Jamaica to drawdown as and when needed. A box in the report gives more information on the programme targets.

Thank you.