

Not an Easy Road: The economic reform process that made inflation targeting possible in Jamaica and what it will take to make it work



THIRD WORLD

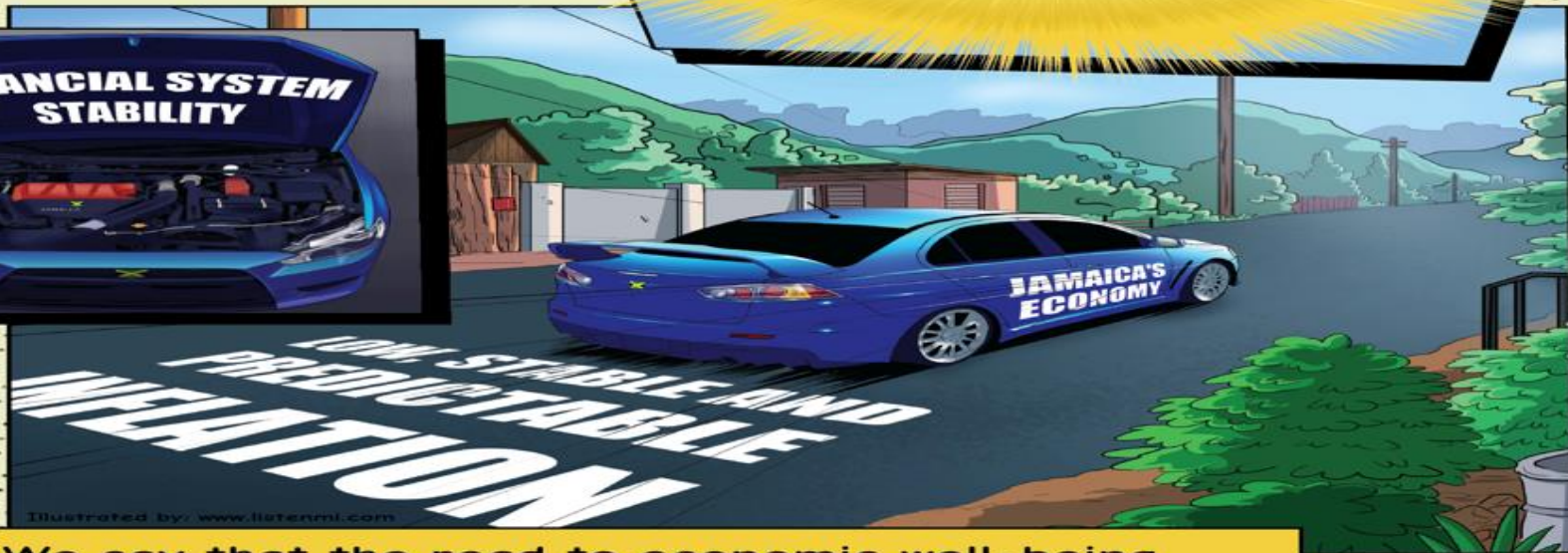
LESSONS FOR FIRST

WORLD GROWTH

TURN- AROUND

PETER BLAIR HENRY

Jamaica's **ECONOMIC REFORM** Journey



Illustrated by: www.listennni.com

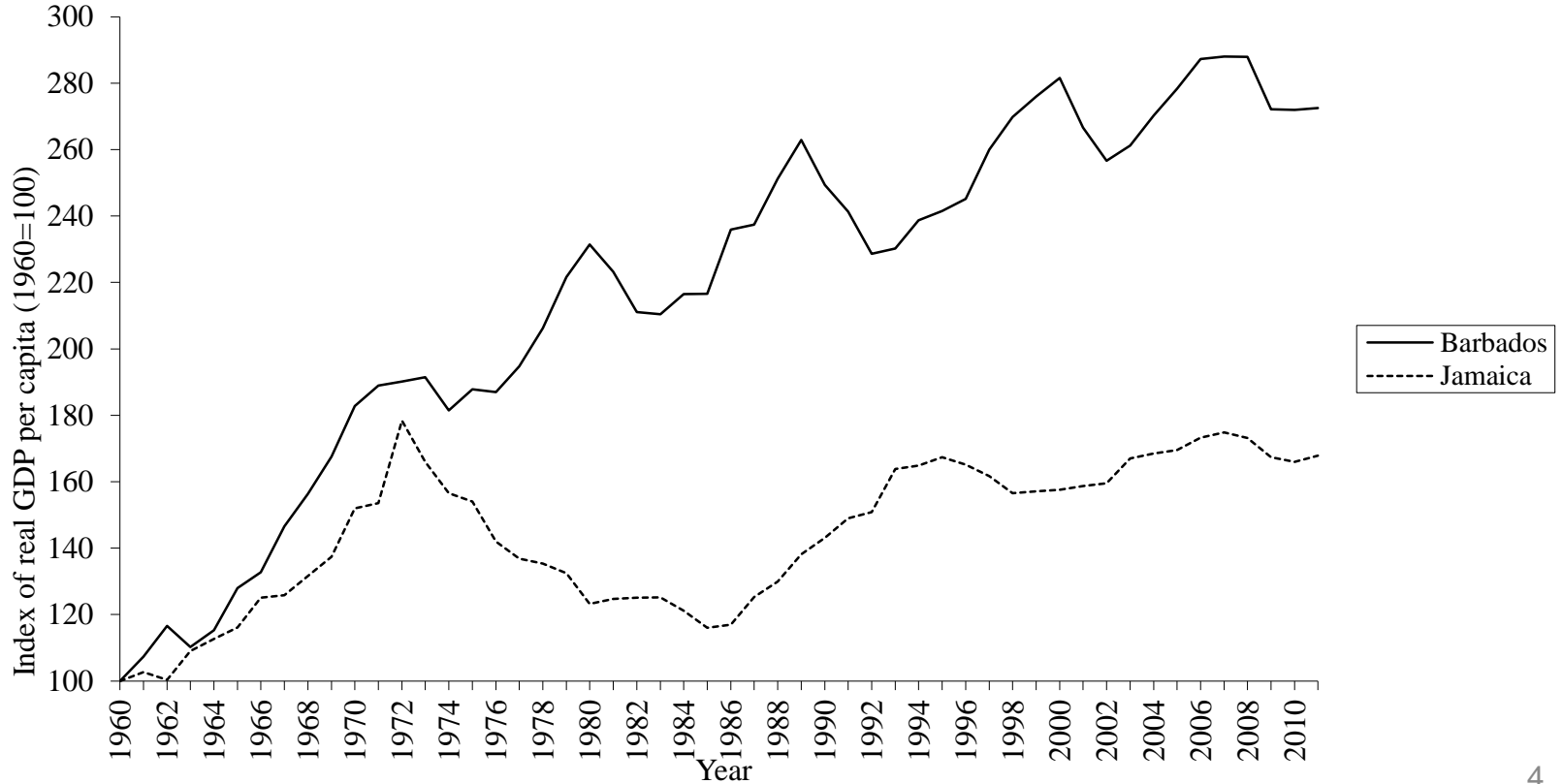
We say that the road to economic well-being is low, stable and predictable inflation, but as we well know in Jamaica, it takes time to build a highway to anywhere, and any worthwhile route involves many components.



Inflation Targeting in Jamaica Will Require Discipline

- Discipline is a sustained commitment to a pragmatic strategy, executed with a combination of temperance, vigilance, and flexibility that values the long-term prosperity of the entire population over the short term enrichment of any particular group of individuals.

Standards of living in Barbados and Jamaica diverged after independence.



Tempting to blame Jamaica's downturn on external conditions.

Reversal of fortune coincided with the Oil Price Shock of 1973 and Fed Chairman Paul Volker's "Saturday Night Special."

Comparison with Barbados makes it hard to embrace that conclusion.

Economic stagnation under both political parties.

Investment: 26 percent of GDP in 1972, 14 percent in 1980.

Spending: 23 percent of GDP in 1972, 45 percent of GDP in 1978.

Fiscal Deficit: 1962-1972, 2.3 percent of GDP; 1973-1980, 15.5.

Inflation: 1962 to 1972, 4.4 percent; 1980, 27 percent.



High inflation is a monster that has hurt Jamaicans badly.

We must work to keep it trapped in the past and not take for granted the low, stable and predictable inflation we enjoy today.

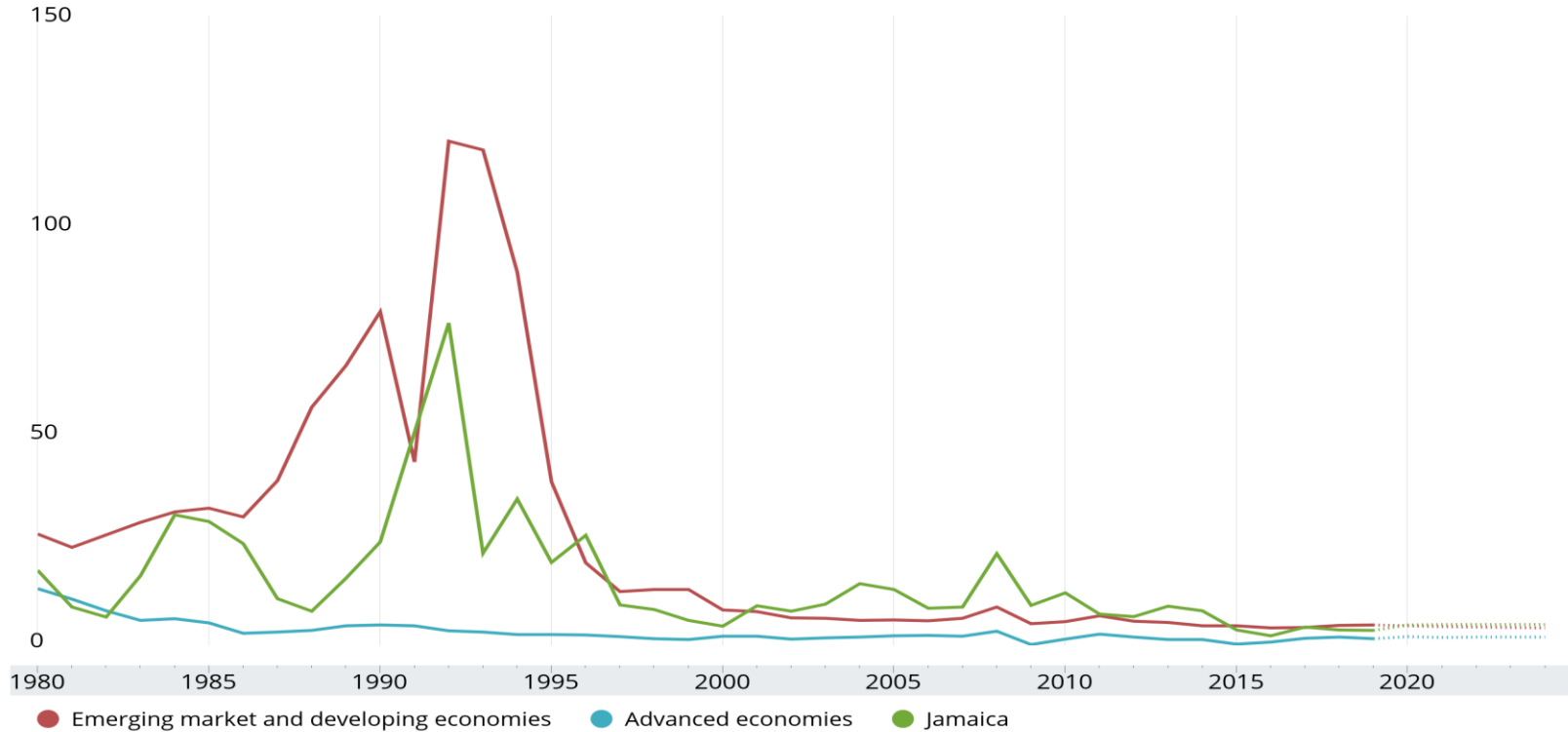


B-FFIT
Full-Fledged
INFLATION TARGETING



IMF DataMapper

Inflation rate, average consumer prices (Annual percent change)



Jamaica's ECONOMIC REFORM Journey

The very first step was perhaps the biggest and most important. The central bank needs breathing space to effectively conduct monetary policy by focusing on price stability, with interest rates as its main policy tool. Meanwhile, the private sector should be the main engine of export and import-substitution-led growth and earn enough foreign exchange to stabilize the economy's current account balance.

FISCAL DISCIPLINE

For both these things to happen, high public debt and fiscal dominance had to be reversed. Crowding out private sector investment had to become "crowding in," and BOJ had to shift from merely holding strain to aggressively stimulating private sector credit expansion while controlling inflation.

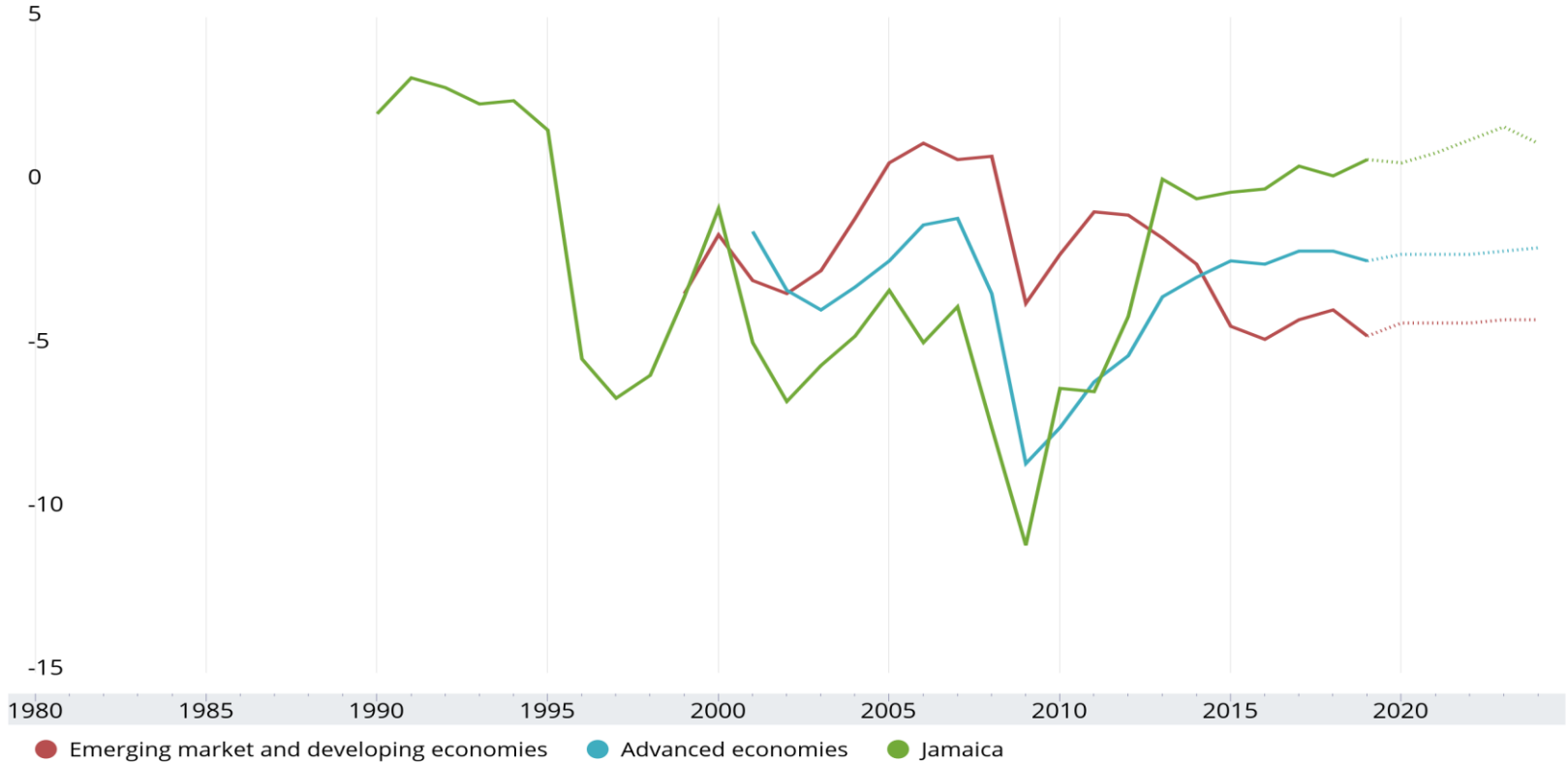
**DEBT
REDUCTION**

The engine of financial system stability will never work properly without all these things being in place. The major success of increased fiscal discipline, therefore, fiscal rules and all, was the tollbooth we had to pass to even enter the highway.



IMF DataMapper

General government net lending/borrowing (Percent of GDP)

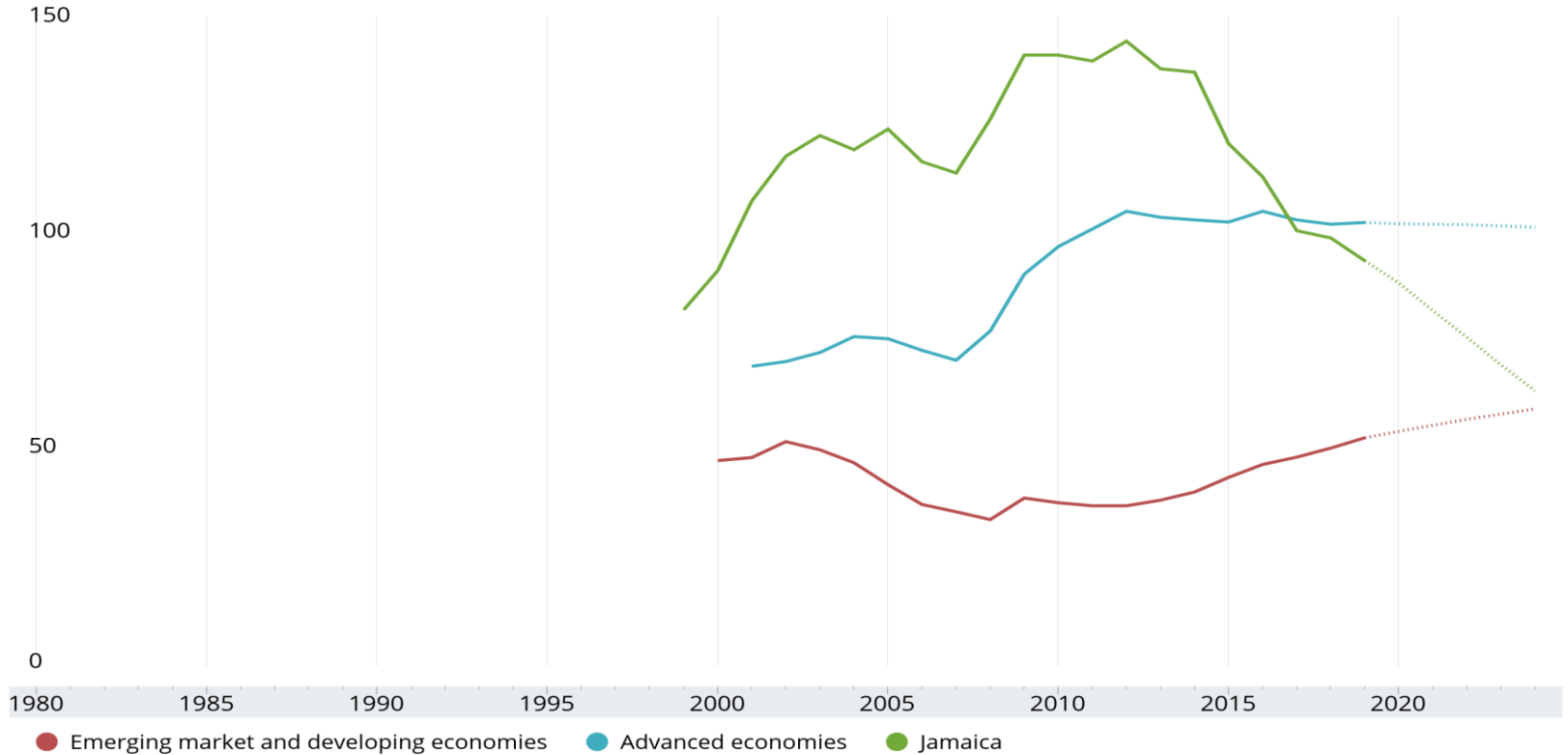


Discipline Requires Continuity

- May 2013: Extended Fund Facility(EFF): \$US932M, quarterly reviews, Economic Programme Oversight Committee (EPOC) established
- August 2013-December 2015: Jamaica successfully completes 10 quarterly reviews with IMF
- March-October 2016: PNP to JLP Transition, Economic Growth Council (EGC) established, 3 additional EFF reviews completed
- November 2016: Precautionary Stand By Agreement (PSBA): US\$1.6 billion, three-year duration, semi-annual reviews

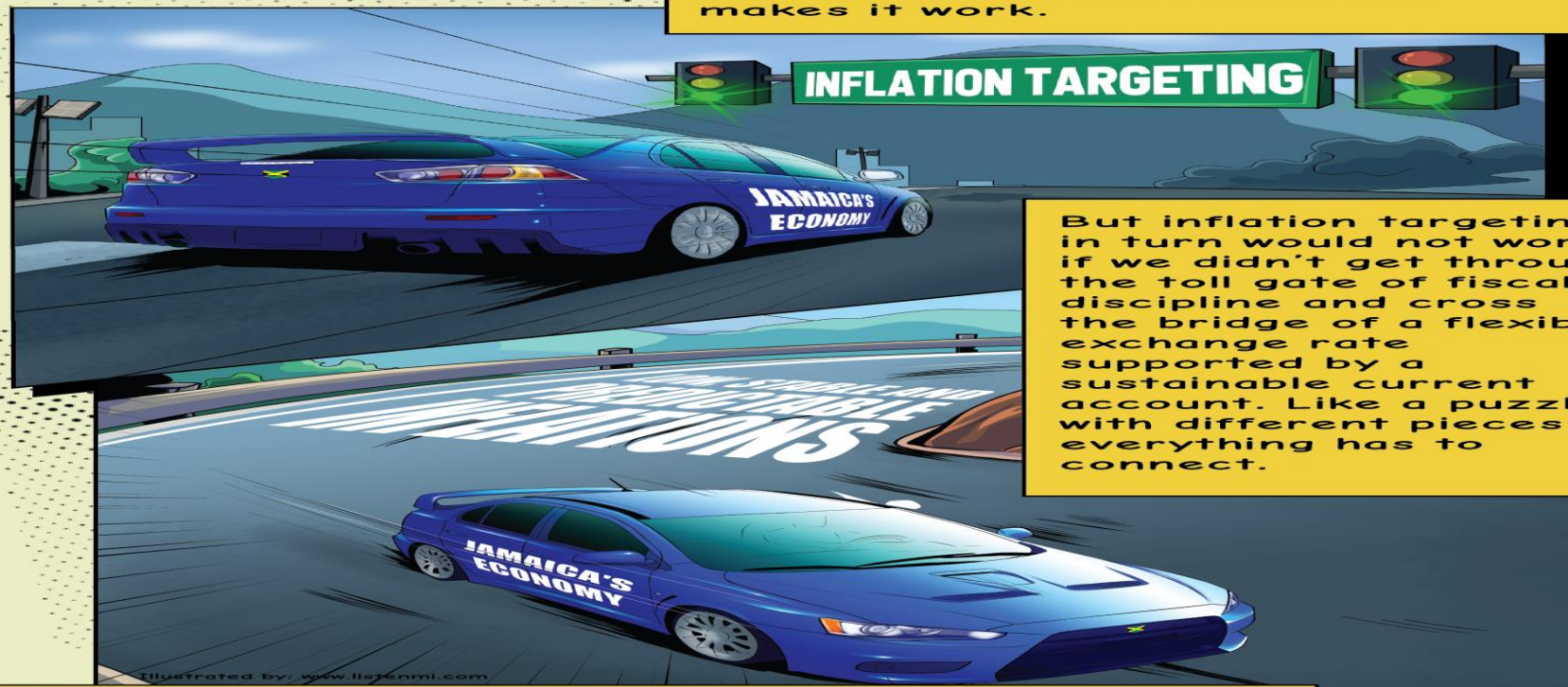
IMF DataMapper

General government gross debt (Percent of GDP)



Jamaica's **ECONOMIC REFORM Journey**

Inflation is now the key indicator – not the exchange rate. Inflation targeting is the framework that enshrines this new reality and makes it work.



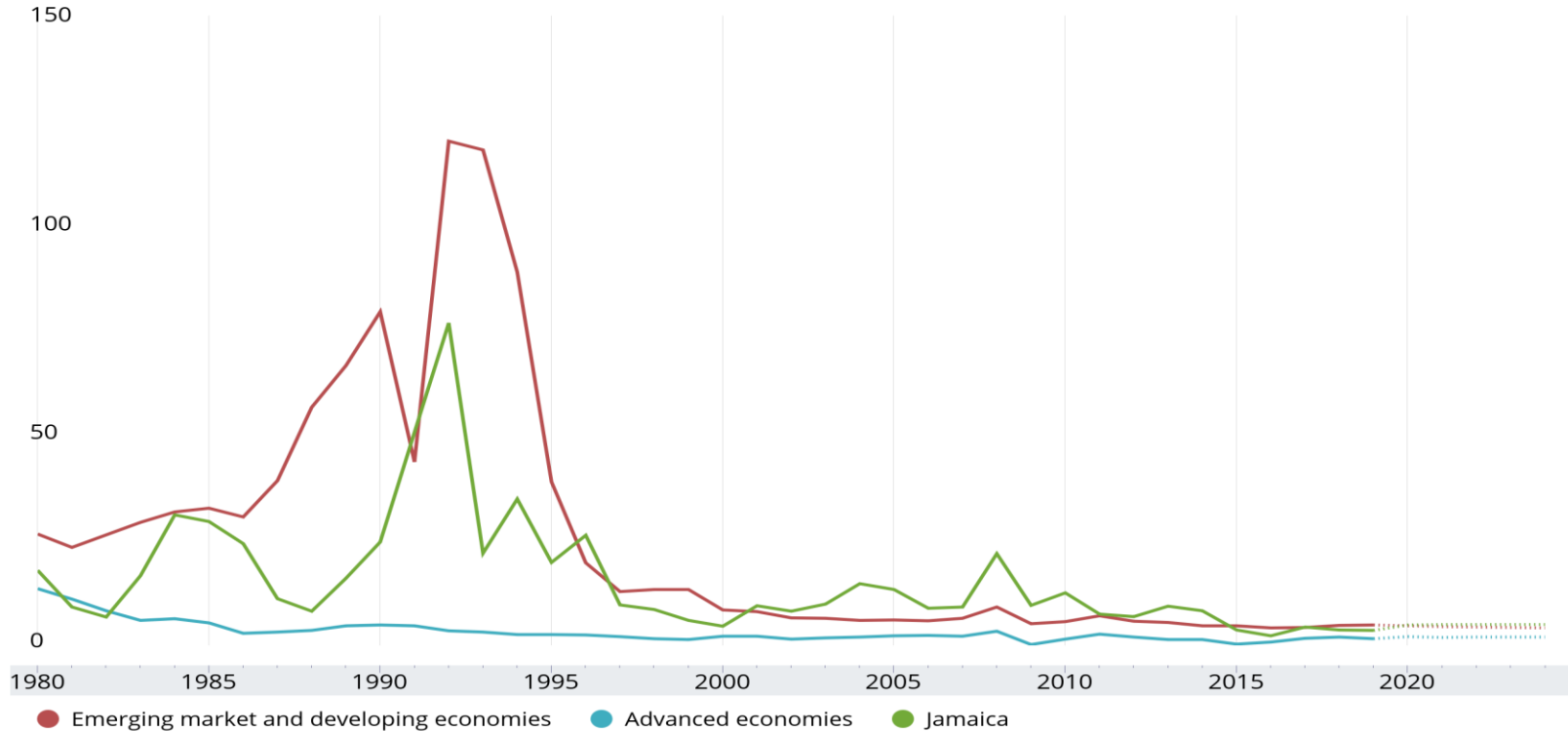
But inflation targeting in turn would not work if we didn't get through the toll gate of fiscal discipline and cross the bridge of a flexible exchange rate supported by a sustainable current account. Like a puzzle with different pieces, everything has to connect.

We still have work to do and some distance to go, but we can be proud of how far we have already come, very optimistic about the road ahead and confident in the pedigree of our vehicle.



IMF DataMapper

Inflation rate, average consumer prices (Annual percent change)



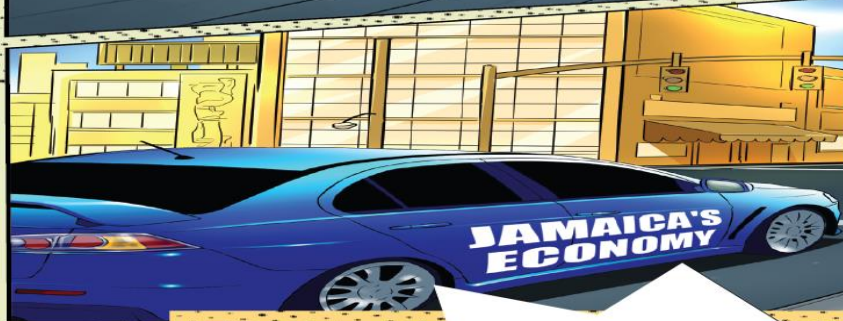
Jamaica's **ECONOMIC REFORM** Journey

And someday in the not-too-distant future we will get to our destination



FINANCIAL INCLUSION

The future we are trying to build can only work and be sustained with financial inclusion



ECONOMIC WELL-BEING

Best road trip ever!

Wi Reach!

