

Monetary Policy Experiences Transitioning to FFIT While Under an IMF Supported Programme

IMF supported programme



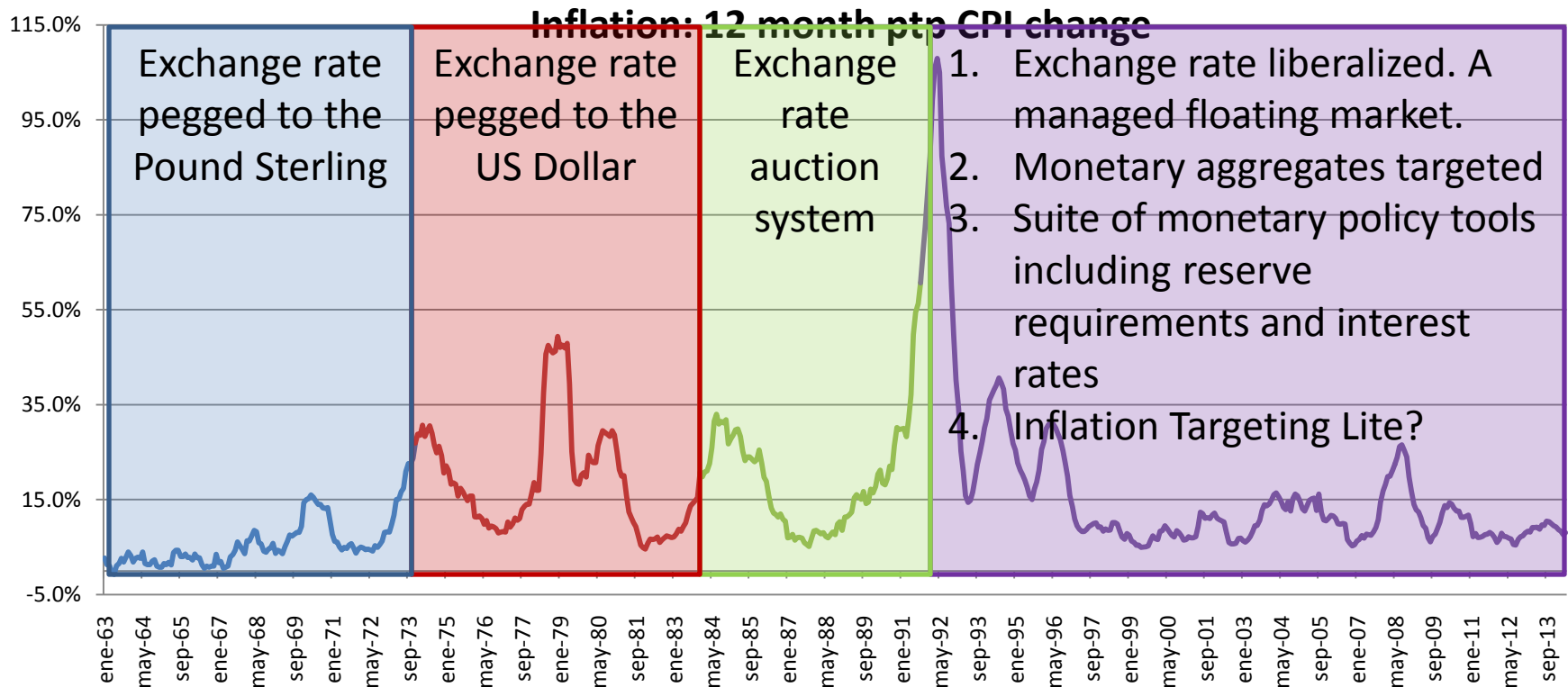
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Outline

- Evolution of Jamaica's monetary policy framework
- Current Monetary Policy Framework
- IMF Supported Economic Programme
- Monetary Policy Challenges
- Monetary Policy Strategy
- Outcomes of Strategy

Evolution of Jamaica's monetary policy framework

- The evolution of policy regimes has led to nominal exchange rate being the main anchor for inflation.
- The Bank of Jamaica (BOJ) has been gradually implementing policies and procedures consistent with inflation targeting which have led to lower and less volatile inflation.



Evolution of Jamaica's monetary policy framework

- Various estimates of the exchange rate pass-through shows that it has moved from more than 100% in the early 1990s to as low as 40% in early 2000s to stabilize at approximately 50% from 2008 to 2012.
- Under current regime:
 - BOJ implemented base money targeting in 1996 and
 - Transitioned to a policy more consistent with inflation targeting (IT) in the early 2000s.

Current Monetary Policy Framework

- Described by the IMF as Inflation Targeting Lite” (Stone 2003). The central bank is not independent but price stability is the main goal of its legal mandate. Inflation targets and forecasts are announced and policy actions are taken through changes in the interest rates to achieve these desired targets.
- Signal rate: Interest rate on the BOJ 30-day certificate of deposit (CD).
- Liquidity is managed through the use of open market operations (OMO), which includes fix rate CDs, repurchase arrangements and *special securities*.

Current Monetary Policy Framework

- Signal rate: Interest rate on the BOJ 30-day certificate of deposit (CD).
- Rate on the ON Repo set at 150 bps above 30-day CD rate.
- Cash reserve used more as a prudential requirement but is changed occasionally to impact liquidity.

Instrument	Rate (%)	Quantity
Liabilities		
30-day CD	5.75	unlimited
ON CD	0.25	unlimited
Assets		
ON Repo	7.25	limited
Other		
Cash reserves J\$	0	12 per cent
Cash reserves US\$	0.25	9 per cent

- Intervenes in the foreign exchange market as required to primarily to reduce undesired volatility.

IMF Supported Economic Programme

- Jamaica has experienced a protracted period of low growth, high public debt, current account deficits and serious social challenges.
- Following the global financial crisis, the Government of Jamaica (GOJ) sought to address these challenges with the support of a Stand-By Arrangement approved by the IMF Board in February 2010. This programme included a government debt exchange. However, the programme went off-track, eroded investor confidence, lowered economic growth, and resulted in acute balance of payments pressures.
- During FY2012/13, the GOJ tightened fiscal policy and began a new set of comprehensive economic reform program.

IMF Supported Economic Programme

- This was supported by a four-year EFF IMF program, for FY2013/14 through FY2016/17, which aimed at averting an immediate crisis while creating the conditions for sustained growth through a significant improvement in the fiscal and debt positions as well as in competitiveness.
- The main pillars of the program are:
 1. Structural reforms to boost growth and employment;
 2. Actions to improve price and non-price competitiveness;
 3. Upfront fiscal adjustment, supported by extensive fiscal reforms (including comprehensive tax reform, fiscal rule and a Central Treasury Management System CTMS);
 4. Debt reduction, including a second debt exchange; and
 5. Improved social protection programs.

IMF Supported Economic Programme

				Target	Actual	Average	Target
	FY10/11	FY11/12	FY12/13	FY13/14	FY13/14	FY14/15 to 18/19	FY19/20
GDP and Prices	(Annual percentage change unless otherwise stated)						
Real GDP	-0.6	0.9	-0.7	0.8	0.9	2.1	2.7
Inflation (ptp)	7.8	7.3	9.1	10.0	8.3	8.0	6.5
Exchange Rate(e.o.p. J\$/US\$)	85.7	87.3	98.9	...	109.6
Nominal depreciation	-4.3	1.9	13.3	...	10.8
Government Operations	(in percent of GDP unless otherwise stated)						
Revenues	26.8	25.6	25.5	27.3	26.9	26.9	27
o/w tax	23.9	23.1	23.7	24.3	23.9	24.1	24.2
Expenditure	33.2	32	29.9	27.2	26.9	26.0	24.9
o/w wages	10.9	11.1	11	10.6	10.6	9.1	8.6
Interest	10.9	9.6	9.5	7.5	7.5	6.4	4.9
Budget balance	-6.3	-6.4	-4.4	0.1	0.1	0.9	2.1
o/w Primary balance	4.6	3.2	5.1	7.5	7.5	7.3	7.0
Public debt	143.5	141.9	146.9	138.3	138.9	121.8	99.0
External Sector							
Current account balance	-9.0	14.9	-12.8	-10.0	-9.6	-6.5	-5.0
NIR (US\$ million)	2553	1777	884	1246	1248	1755	2206

Monetary Policy Challenges

- Managing liquidity in the context of low investor confidence and a frozen GOJ bond market.
- Discouraging capital outflows and rebuilding the NIR without significant adverse impact on domestic interest rates given weak economy.
- Allowing adjustments in the nominal exchange rates to improve price competitiveness while minimizing the impact on inflation and inflation expectations.
- Establishing inflation as the nominal anchor for expectations of price changes.

Monetary Policy Strategy

- Elongating the maturities on BOJ instruments to better manage structural liquidity overhang.
- Managing the slope of the yield curve to make short term rates reflective of liquidity conditions but longer term rates consistent with growth and inflation outlook.
- Implement a programme of borrowing reserves tied to liquidity support operations.

Monetary Policy Strategy

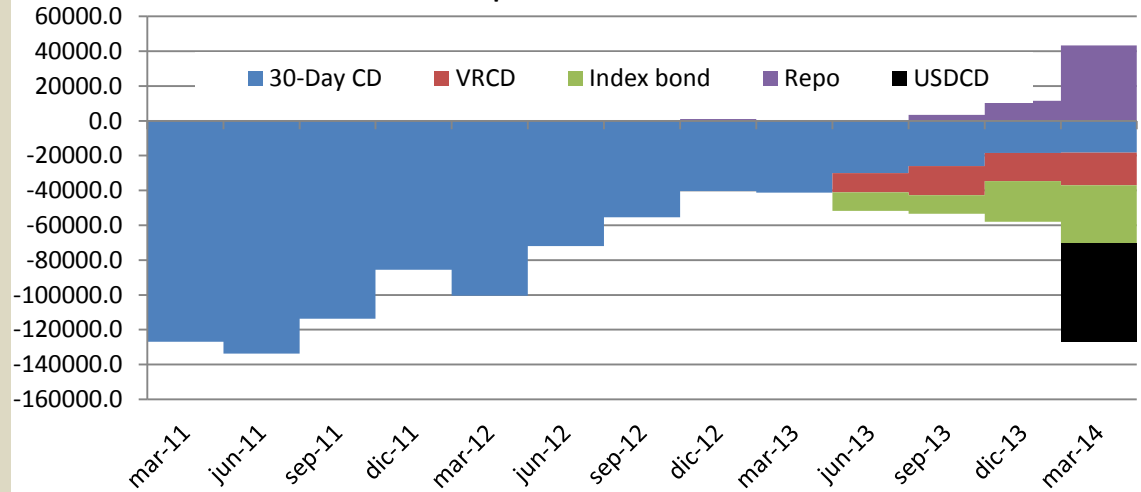
- Elongating the maturities.
- Managing the slope of the yield curve.
- Borrowed reserves tied to liquidity support operations.
- Under BPM6, central bank foreign currency liabilities with maturities in excess of 1 year are considered part of the foreign reserves.

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Assets		
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Other		
Cash reserves J\$	0	12 per cent
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Liabilities		
VR CDs (180 day to 2.5 years)	8 to 9	unlimited
Index bond(1 to 3 years)	3 to 5	unlimited
USD-CDs (2 to 4 years)	3 to 5	unlimited
Assets		
Standard Liquidity Facility (ON)	7.25	limited
Bi-monthly repo operation	6	limited
		unlimited but
Six month repo operation		linked to USD-CDs

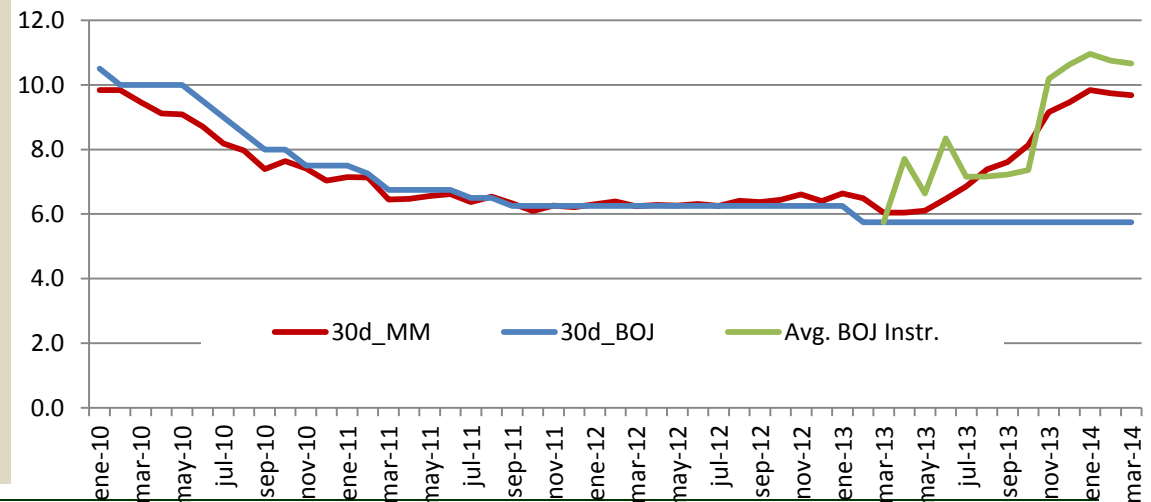
Outcomes of Strategy

- Successfully elongated maturity profile to reduce structural liquidity overhang.
- Successfully met NIR target through market purchases and borrowed reserves (USD-CDs).
- Money market rates have trended above the signal rate but below the average rate on BOJ's domestic currency denominated instruments.

Stock of BOJ Securities
J\$'000



Selected BOJ and Market Interest Rates



Outcomes of Strategy

- Successfully elongated maturity profile to reduce structural liquidity over hang.
- Successfully met NIR target through borrowing reserves (USD-CDs).
- Money market rates have trended above the signal rate but below the average rate on BOJ's domestic currency denominated instruments.

Summary BOJ Balance Sheet

(J\$ '000 unless otherwise stated)

	Mar-11	Mar-12	Mar-13	Mar-14	Apr-14	May-14
NIR (US\$ millions)	2,602.4	1,777.1	884.2	1,303.6	1,285.1	1,164.8
Net Domestic Assets	-151,124.9	-75,089.9	8,051.6	-44,251.5	-40,762.8	-29,622.9
Net Claims Pub. Sect.	81,297.8	118,844.8	157,528.5	162,105.9	168,423.9	172,919.6
Net Claims Banks	-13,610.5	-15,188.5	-19,770.5	-21,390.8	-22,371.8	-22,309.5
OMO	-151,535.5	-111,572.0	-54,299.0	-30,533.2	-30,521.4	-23,084.6
Other	-67,276.8	-67,174.2	-75,407.4	-154,433.5	-156,293.4	-157,148.4
MB	81,399.3	83,696.7	91,294.5	94,428.0	95,944.8	94,285.4

Outcomes of Strategy

	FY10/11	FY11/12	FY12/13	Target FY13/14	Actual FY13/14	Average FY14/15 to 18/19	Target FY19/20
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Remaining Challenges

- Pace of depreciation continues to affect domestic investor confidence.
- Pace of depreciation impacting inflation outlook despite significant reduction in the pass through.
- Borrowed reserves is a temporary solution.
- Despite keeping domestic interest rates relatively low and the GOJ staying out of the market for loanable funds, credit growth has remained lower than originally programmed.