

ADDRESS TO THE NATION
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This evening, I will address the impact of the current unprecedented global financial turmoil on the local economy as well as the policy actions that have been taken to preserve financial stability. I will also review the outlook for the Jamaican economy.

First, let me briefly review the impact of the deteriorating external environment on the Jamaican economy.

Since the middle of last year, many developed nations have been confronted by the financial turbulence originating from the sub-prime mortgage meltdown in the United States. This situation has triggered the global credit crisis and worldwide economic slowdown.

Developing countries, until recently, had been relatively resilient to the global crisis given overall low direct exposure to US sub-prime mortgage assets. However, the deepening global credit crunch is now presenting challenges to the financial systems and economies of developed and developing countries alike.

The challenges facing financial systems of developing countries are primarily rooted in uncertainty. The fast deteriorating global economic outlook and some nervousness about the resilience of companies to weather the financial shock have temporarily dislocated funding markets. Consequently, in light of the ambiguity surrounding the full economic impact from the current global financial market crisis, international ratings agencies have issued ratings downgrades on many countries.

As you know, the Jamaican economy has been affected by these challenges. In line with many other developing nations, normal financial flows to domestic institutions have been temporarily

disrupted until international investors feel safe again to lend across, and even within, their borders. Recently, similar to many other countries, the local foreign exchange market has experienced some pressure arising from the temporary constraint on international credit markets and the consequent price declines across a broad range of financial assets internationally.

Nevertheless, the challenges faced by the external financial system are not insurmountable if they are counteracted by appropriate policy responses. When the crisis escalated on Wall Street several weeks ago with the collapse of Lehman Brothers, the authorities at the Bank of Jamaica and the Financial Services Commission were mandated to undertake an immediate assessment of the local financial institutions to determine the extent of their exposure to the risk of contagion.

We were satisfied then that the level of exposure was manageable and in the event of margin calls on the few financial entities affected, the Central Bank was in a position to provide liquidity support. I assured you then and assure you now that there is no cause for alarm as there is no significant threat with respect to our local financial institutions.

We have established a Monitoring Unit comprising the leadership and technocrats of the Ministry of Finance & the Public Service, Bank of Jamaica, Financial Services Commission and Planning Institute of Jamaica. This team monitors and analyses developments in the global financial market on a day-to-day basis with a view to determining the likely impact on Jamaica and to allow for timely and pro-active policy intervention.

What have been our policy actions so far?

The Bank of Jamaica, like central banks around the world, implemented a coherent set of policy measures to improve the flow of funding within domestic markets and preserve the financial stability of our country. Allow me to briefly mention two critical initiatives.

- The first component of the Bank's strategy was the establishment of a temporary collateralized lending facility of US\$300million to supply liquidity to financial institutions. We undertook this measure to satisfy financing agreements related to

payments on Government of Jamaica global bonds held with institutions abroad. This arrangement has had a positive impact on the prices of our global bonds, resulting in a reduction in this source of foreign exchange demand. Indeed, of the US\$300 million window, some US\$170 million has been taken up with demand for it now slowing to a trickle.

- To complement this facility, the Bank formally established a programme to oversee and facilitate the flow of credit among local financial institutions. In this arrangement, banks with funds available for inter-bank lending can place these funds with the BOJ, which then on-lends to borrowing institutions with the appropriate collateral. This action has also moderated some of the pressures in the foreign exchange market and assisted in the continued functioning of the inter-bank credit market.

On November 12th the Ministry of Finance introduced a US\$ Indexed Bond to the local financial market. This Bond assisted the Government in raising funds to finance the Budget as well as in stabilizing the foreign exchange market. Additionally, the Central Bank implemented a two-pronged strategy to improve the overall supply of foreign currency to the market by reducing the incentives and ability of some institutions to hoard foreign currency liquidity. The Bank offered on November 18th a Special Certificate of Deposit to local financial institutions. This offer has had a positive effect on the foreign exchange market as investors reversed their build-up in foreign currency positions in order to purchase the instrument.

On maturity of this instrument on the 3rd of December 2008, the Central Bank will increase the cash reserve requirement of banks from 9 per cent to 11 per cent of Jamaican Dollar liabilities. This action will ensure that the excess liquidity removed this week will not return to threaten market stability in two week's time.

Altogether, these policy initiatives will address the temporary gap in the foreign exchange flows and maintain order in the domestic financial markets. I must emphasize that throughout the current global financial crisis, the capital adequacy of Jamaica's financial

institutions has remained at fundamentally strong levels. The banking sector, subject to strict Central Bank supervision, has remained resilient.

I will now turn to the likely effects of the global crisis on the wider economy.

- Our financing programme for 2008/09 was predicated on securing US\$600 million from the external market. We were prudent in securing US\$350 million in June. We have a further US\$250 million, which we had intended to source from the international capital market. The forecast for market conditions at this stage is uncertain, given the liquidity crisis in the capital markets. Our debt payment reputation is strong and our relationship with multilateral institutions has been strengthened. I am confident that we will have more than enough foreign exchange to meet our external obligations and keep our foreign exchange market adequately supplied.
- The crisis of confidence in the global financial market and the need for liquidity will reduce the appetite for emerging market debt and this could affect the price of Jamaican bonds. Given the limitation on global financing it is important for us to strive to maintain our deficit target. Despite the pressures for additional expenditure to meet hurricane damage and public sector wage adjustments, we continue to exercise strict fiscal controls. I am therefore pleased to report that up to the end of October, our projected fiscal deficit remained on target, even as we know that the rest of the financial year will be challenging.

Analysts are forecasting that the global economy is headed into a global recession. Already, Germany and Japan are officially in a state of recession, while the US is teetering on the brink of recession. This poses significant challenges for the Jamaican economy in vital areas such as remittance flows, tourist arrivals, exports, balance of payments and foreign direct investments. However with sound management and strategic initiatives, we can weather the storm.

Remittances have, in the past, demonstrated resilience even in times of economic slowdown in originating markets. Up to the end of October, remittance flows to Jamaica were up by 7.5%.

Both the Jamaica Tourist Board and major hotel operators are busy in the market ramping up our promotional activities to minimize the effects of the expected downturn in global vacation travel.

We are working with our partners in the manufacturing, export, tourism and bauxite sectors to design appropriate measures to assist them in meeting the challenges they are facing during this difficult period.

We have experienced unusually high inflation since the last quarter of last year, driven largely by steep increases in oil and other international commodity prices. This is now tapering off as reduced global demand drives down commodity prices. We are already seeing this in the falling prices for oil, corn, wheat and other critical imports. In fact, the inflation rate has moderated sharply since September, recording 0.6% in September and 0.3% in October.

Overall, economic activity will weaken in light of a protracted global slowdown in economic growth. The intensification of the financial turbulence will dampen previously buoyant foreign currency flows related to tourism and remittances. However, the continued fall-off in the price of oil – from US\$147 in July to less than US\$50 last week - and reduction in prices of other commodities will significantly counteract the impact of a reduction in foreign currency inflows on our foreign exchange market and external accounts and could, in fact, result in an improvement in our balance of payments.

Even before the global economic crisis the Jamaican economy was facing significant challenges. By far the largest factor is our high public debt. Compounding this situation is the fact that Jamaica has been confronted by a number of exogenous economic shocks over the last year due mainly to the setback caused by Hurricane Dean and the October floods last year as well as Tropical Storm Gustav earlier this year.

That's the diagnosis. What is the prescription?

Long before the current crisis, we indicated our intention to re-engage and significantly expand our relationship with the multilateral lending agencies: the World Bank, the Inter-American Development Bank, the Caribbean Development Bank and our bilateral partners like the European Union. This re-energizing of our relationship with these institutions has given us

access to hundreds of millions of foreign exchange flows, which has proven to be vital in the face of the global financial crisis. Some of this funding will replace the flows we would have hoped to access from the private capital market which is now closed to most emerging market countries.

For instance, so far since being in office, the GOJ has secured some US\$300 million from the Multilateral Development Banks and on December 05, I will sign an additional three policy-based loans with the IDB for a total of US\$110 million. The IDB has already committed itself to providing US\$100-200 million per year over the next three to five years. We expect the World Bank to do likewise. By February 2009, significant additional flows are expected from the World Bank and the Caribbean Development Bank.

Significantly increasing access to financing from the multi-laterals makes eminent sense since their lending rates are considerably lower and more stable than the commercial markets. The challenge, since loans from these agencies are largely policy-based loans, is to harmonize our domestic policies especially dealing with fiscal and administrative reform, with the lending policies of these agencies. This is not a difficult exercise because there is a convergence of policies given this Government's commitment to Good Governance.

Indeed, Jamaica remains on good terms with all International Financial Institutions, including the International Monetary Fund, which completed their semi-annual visit to Jamaica last Friday. In this calendar year, we have had goodwill visits from the leadership of the World Bank, Caribbean Development Bank and the Inter-American Development Bank. In early December, the Managing Director of the International Monetary Fund, Mr. Dominique Strauss-Khan, will add to this support by visiting us as part of three-country tour including the Dominican Republic and Costa Rica.

The Government, therefore, is embarking on a set of major reforms aimed at achieving higher economic growth, with fiscal sustainability and debt reduction as at the cornerstone of the reform agenda. The programme entails four main pillars:

- i) Promoting Fiscal Sustainability through greater control of public sector balances and debt;

- ii) Increasing the efficiency of Government's Financial Management and Budget Process;
- iii) Improvement in Tax Policy and Administration, geared toward a more simplified, equitable and efficient tax system to buoy our revenue flows.
- iv) Improvement in public sector productivity, efficiency and responsiveness

There is solid support for the Government's reform programme from the International Development Partners (IDPs) which have expressed their willingness to provide: (i) resources to replace some high cost commercial debts on better terms as well as (ii) technical assistance to undertake the identified reforms and to strengthen capacity within the public sector.

We are not going to curl up and wait for the worst to pass. We are going to fight our way through this global crisis. We are going to support our productive sector and enable them to seize opportunities even in the face of adversity.

Jamaica has secured access of up to a US\$200 million from the "Liquidity Programme for Growth Sustainability" recently established for Latin American and Caribbean countries by the IDB. The programme will facilitate substantial liquidity to our commercial banks facing reduced access to foreign credit lines and inter-bank credit, and will provide credit to the goods and services producing sector.

The EXIM Bank has been active, already on-lending J\$4.2 billion of a targeted J\$6 billion for this fiscal year. They also secured a US\$10 million Letter of Credit from Sovereign Bank in the USA to further address the reduction in suppliers credit to our manufacturers and importers.

We are establishing special funding windows through the Jamaica Business Development Company to assist small businesses and micro enterprises.

Cabinet is expected to sign off shortly on a proposal by the JMA for special and differential treatment in government procurement practices for local manufacturers and service providers.

We have made available through the Development Bank of Jamaica some J\$3.0 billion for modernization of agriculture and agro-processing; for small and medium size enterprises to

expand; an energy fund to deal with conservation and renewable energy; a fishermen's revolving loan scheme; and a dairy revitalization fund.

I encourage Jamaicans to return to production and productivity. The only sure way to successfully emerge from this financial crisis is to invest in our productive sector and grow our way out of our difficulties. The Government has provided access to relatively cheap resources. I urge you to maximize use of this opportunity to develop your business and contribute to nation building.

These are just some of a range of issues on which we need to focus to see how, despite the threat of the global economic tsunami; we can help local manufacturers and producers to survive where they are in danger and to be prosperous even where they are not.

The challenges of this time demand that we identify and grasp opportunities from the jaws of this global economic meltdown.

The international financial crisis has reinforced the need for a spirit of national togetherness. Although we are being severely tested, our economy itself is not in crisis. We are not in panic mode. Our regulatory regime continues to be effective and our institutions remain strong. The strength and resilience of our people comes to the fore at times of the greatest challenge. We are committed to the steady, resolute and inclusive leadership that the circumstances demand.

We will continue to closely monitor the developments in the global economy and will continue to take decisive action to protect our nation and its people, and equally important, to keep you all informed of our response to the unfolding developments.

No global crisis, no matter how grave, can hold this nation down. We can come through this crisis positioned and ready to achieve growth and prosperity for our people. We must be confident in ourselves and believe in our future. Yes, we can! Yes, we will!

May God bless you all, and richly bless Jamaica.