



# EPOC STATEMENT ON FLEXIBLE EXCHANGE RATE AND INFLATION TARGETING POLICY IMPLEMENTATION

## EPOC Supports the Flexible Exchange Rate and Inflation Targeting policies

Jamaica has made much progress under its Economic Reform Programme and this is bearing fruit.

The reforms have not been easy nor have they always been popular and they have come at great sacrifice.

Jamaica has a stable economy, job growth has been strong, poverty has declined, debt has been significantly reduced and inflation is low and stable.

EPOC in its role of providing over-

sight has consistently supported Jamaica's Economic Reform Programme across political administrations, and has assisted the public in the understanding of these reforms and their long-term benefits.

### Flexible Exchange Rate and Inflation Targeting

The Economic Reform Programme includes a commitment to a market determined and flexible exchange rate as the Government of Jamaica and the monetary authorities move towards full-fledged inflation targeting within the context of a resourced, modernized and autonomous central bank. EPOC has supported this in the past and EPOC reiterates its support today.

### Path to a Flexible Exchange Rate: 2016-2018

This is not new. The GOJ and the Bank of Jamaica ("BOJ") have taken steady, cumulative steps over the past two years towards this goal including the following:

#### (a) Overnight Policy Signal Rate

The BOJ changing its policy rate to the overnight rate

#### (b) Non-Borrowed Reserves

The BOJ is shifting reserve accumulation from borrowed reserves to market-based FX purchases.

#### (c) Phased Reduction in Surrender Requirements

The BOJ has been reducing the mandatory amount that authorized FX dealers and cambios are required to sell to the BOJ from their purchases, thereby increasing foreign exchange supply to the market.

#### (d) B-FXITT Auctions

The BOJ introduced auctions to buy and sell foreign exchange in a transparent manner that aids price discovery.

#### (e) BOJ Intervention Policy: BOJ Intervention in Disorderly Market Conditions

BOJ's intervention is limited to instances of disorderly market conditions and excess volatility.

#### (f) Inflation Targeting: Price Stability

The BOJ is moving towards full-fledged inflation targeting, implementing policy to achieve inflation outcomes and providing explanations for missed inflation numbers.

### Reforms increase Transparency and Accountability

These reforms, buttressed by legislation to modernize BOJ's governance, strengthen its balance sheet, increase its accountability and transparency and enshrine its independence in monetary policy implementation, will enable the institution to effectively pursue its inflation mandate.

### Price Stability: Protection of Purchasing Power

Inflation targeting will yield significant benefits for businesses and consumers, including protecting the purchasing power of the consumer. The current inflation tar-

get range under the IMF Standby Arrangement is 3.5-6.5 percent and this IMF inflation target range converges to the GOJ inflation target of 4 - 6 percent by 2019. Should the upper or lower limits be breached under the current Standby Arrangement with the IMF the Monetary Policy Consultation Clause would be triggered which would require the BOJ to consult with the IMF Executive Board on the reasons for deviation and the proposed policy response.

### Conclusion

#### Holistic Monetary Reforms - Embed Price Stability

EPOC believes these reforms to monetary policy that have taken place over the last two years, when looked at holistically, provide the BOJ with the toolkit to maintain price stability that preserves the purchasing power of all Jamaicans. The preservation of the purchasing power of all Jamaicans is the practical relevance of the BOJ switching to an inflation targeting regime.

#### Competitive Jamaican Economy

The other key objective of the monetary reforms is to ensure we have a flexible exchange rate that adjusts in line with the fundamentals of the Jamaican economy and global market conditions. This is critical to Jamaica being a globally competitive economy that can attract capital that will lead to sustainable job creation and growth.

#### Excess Volatility in FX Market

It is important to note that the BOJ

possesses the tools through the BFX-ITT auction Mechanism and its Intervention Policy to intervene during periods of excess volatility. This was evident in the BOJ flash Auction which saw the BOJ selling US\$40m into the market on August 24, 2018.

#### Transparency and Confidence

Whilst we acknowledge that these policy reforms will promote healthy debate, EPOC believes that accurate and timely release of information to the public from the policy makers in general, and the BOJ in particular, is crucial to the maintenance of confidence. EPOC therefore acknowledges the Minister of Finance, Dr. Clarke, for releasing the correspondence between himself and the BOJ on developments with inflation targeting.

#### Build on Economic Programme Successes

EPOC is confident that the monetary policy reforms will build on the successes to date which have led to a reduction in debt from 147 percent to currently 105 percent of GDP over the past 5 years and the highest levels Net International Reserves ever in Jamaica's history of over US\$3 billion dollars.

*EPOC supports these reforms and encourages all Jamaicans to do the same even through the challenging times as we continue to strive for greater levels of growth while building a strong and resilient economy for all Jamaicans.*

**Keith Duncan**  
Co-Chairman, EPOC

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