

FINANCIAL SYSTEM STABILITY COMMITTEE'S STATEMENT ON BANK OF JAMAICA'S 2019 FINANCIAL STABILITY REPORT

The Financial System Stability Committee ("FSSC") has reviewed Bank of Jamaica's 2019 Financial Stability Report. The report assessed developments in the financial system and the associated systemic risks since the September 2018 quarter. The data and analysis presented in the report showed that Jamaica's financial system remained sound and stable. Both deposit-taking institutions and non-deposit taking financial institutions were well capitalized and profitable. In addition, the extent of maturity mismatch of financial entities' balance sheets and their ability to meet significant demand for liquidity showed no significant change in the review period.

Notably, the financial system remains highly interconnected and concentrated. The report identifies a significant degree of counterparty funding between related entities operating in different financial sectors. Bank of Jamaica's network analysis demonstrates that as a result of the extent of related party funding, a shock to a single entity could be amplified through its financial group, causing further spillover to the wider financial system.

Bank of Jamaica (BOJ) continues to assess the notable movements in stock and real estate prices. The report concludes that the movement during the assessment period largely reflected a reversion to levels observed prior to the 07/08 global financial crisis, influenced by Jamaica's fiscal consolidation and accommodative monetary policy. The fiscal consolidation and accommodative monetary policy have also facilitated strong growth in private sector credit. The report, however, states that the lag in the real growth of disposable personal income and GDP represents a potential build-up of vulnerabilities in the financial system.

The ability of BOJ to assess systemic risk exposures due to financial conglomerates, and separately, systemic risks due to household and corporate debt, is therefore imperative. The FSSC recognizes the Bank's effort to better understand the operations of Jamaica's largest financial groups and the initiatives being taken to improve group-wide supervision. In addition, the FSSC recommends to BOJ that its assessments of systemic risk be further guided by granular

information on borrowers' repayment ability by building a picture of the balance sheets of household and corporate sectors.

The COVID-19 pandemic may create new challenges for managing financial system stability. Global economic activity is projected to slow or even decline due to the virus. Bank of Jamaica's scenarios show potentially significant adverse impact on Jamaica's GDP growth arising from the global spill-over while significant uncertainties still exist as the extent and length of the pandemic is still unknown. Due to the macro-financial linkages which exist within the Jamaican economy, there is the potential for the weakening of financial institutions' balance sheet and profitability. A significant fall-off in economic activity could result in the reduced demand for credit, higher non-performing loans and the withdrawal of bank deposits. Further, non-deposit taking financial institutions may experience challenges associated with a sell-off in financial markets, material declines in asset prices and subsequent market illiquidity.

The Committee therefore endorses the initiatives being undertaken by BOJ to ensure adequate foreign currency and Jamaican dollar liquidity and is of the view that these initiatives will support the normal functioning of the financial system, including the payment system, during this challenging period. Furthermore, the Bank will continue to evaluate financial market conditions and take necessary steps to minimize disorder in the financial system.

At its meeting on 24 March 2020, the Financial System Stability Committee endorsed these conclusions drawn in the report.

The report is available at <http://boj.org.jm/publications>.

Financial System Stability Committee

24 March 2020