



BANK OF JAMAICA

MINUTES OF THE
SPECIAL MONETARY POLICY COMMITTEE MEETING
on Liquidity & Access to Finance
HELD VIRTUALLY

ON

FRIDAY, 10 DECEMBER 2021

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Minutes of the Special Monetary Policy Committee ("MPC/the Committee") meeting held virtually on Friday, 10 December 2021 at 10:30 a.m. via GoToMeeting.

Attendance

The following members of the Committee were present:

Mr. Richard Byles	Chairman
Dr. Wayne Robinson	Senior Deputy Governor
Mr. Robert Stennett	Deputy Governor
Dr. Nadine McCloud	Appointed Member, MPC
Mr. David Marston	Appointed Member, MPC

Other attendees:

Ms. Carey-Anne Williams	Division Chief, REPD ¹
Mrs. Sharon Miller-Betty	Deputy Division Chief, REPD
Ms. Tanisha Ennis	Executive Coordinator, Governor's Office
Ms. Shannon Spencer	Monetary Policy Committee Secretary

1.0 Call to Order and Apologies

- 1.1 The Chairman called the meeting to order and welcomed all to the special meeting of the MPC to discuss issues relating to liquidity in the financial system and access to finance by the private sector. There were no apologies for absence.

2.0 Presentation on Liquidity, Bank Competition and Access to Finance

- 2.1 Mrs. Sharon Miller-Betty, Deputy Division Chief of the Research and Economic Programming Division delivered the presentation on Liquidity, Access to Finance and Bank Competition. The presentation was intended to address issues raised by the MPC in a previous meeting about the structural impediments to the monetary policy transmission mechanism. In this regard, the presentation focused on four main areas: i) the extent of liquidity in the banking system, ii) the lending behaviour of banks, iii) the main contributors to profitability, and iv) initiatives to improve bank competition.

¹ The Bank's Research and Economic Programming Division.

- 2.2 With regard to the state of liquidity in the Jamaican banking system, it was reported that, for 2020, the average stock of current account balances of deposit-taking institutions (DTIs) was \$52.7 billion, which increased to \$71.0 billion for the calendar year (CY)-to-September 2021. A major source of liquidity in the banking system stemmed from Bank of Jamaica's ("BOJ/the Bank") foreign currency operations, which contributed approximately \$118.0 billion and \$126.9 billion in 2020 and for the CY-to-September 2021, respectively.
- 2.3 The level of liquidity in the system was measured against the Bank's estimated current account threshold. The assessment revealed that the banking system for CY-to-September 2021 was mainly in excess relative to BOJ's estimated threshold. It was highlighted that two large DTIs accounted for approximately 60 per cent of bank liquidity in the system. However, it was mostly concentrated in one large DTI. The outlook for the Bank's foreign currency reserves and the benchmark Assessing Reserve Adequacy (ARA) metric suggest that there was limited scope to reduce the foreign currency surrender requirement in order to manage the excess liquidity in the system.
- 2.4 The assessment also examined the lending behaviour of banks in the system. It was stated that large banks, those with high levels of liquidity, tend to be more risk-averse. This behaviour was evidenced by the small proportion of business loans in their loan portfolios, highlighting one of the structural impediments to an effective monetary policy transmission mechanism. The analysis also indicated that the loans disbursed to the business sector were concentrated in the Distribution sector, which accounted for approximately 22.0 per cent of the stock of business loans between 2018 and 2021, followed by Tourism and Professional & Other Services.
- 2.5 In terms of bank profitability, interest income on loans accounted for most of the revenue of banks, relative to other sources of revenue. From 2016 to 2020, the ratio of interest income to total revenues averaged 46.9 per cent. However, the ratio of fee income to total revenue averaged 20.9 per cent over the same period. It was noted that the mix of fee and interest income varied across banks. The bank with the largest current account balance reported relatively high fee income relative to the system and interest income as a proportion of total income was the lowest.
- 2.6 The presentation concluded by reviewing specific initiatives to improve bank intermediation. The first initiative involved the implementation of several recommendations outlined in a paper prepared by the Menns SPRL on bank competitiveness for Jamaica. These recommendations included: (i) the passage

of a new National Identification and Registration Act that would support and improve the Know Your Customer (KYC) process, (ii) work to enhance the digitisation of banking services to allow for a faster expansion of the agency network, and (iii) the implementation of measures to boost financial inclusion. On the latter proposition, in March 2020, the Bank had created the Fintech Regulatory Sandbox to advance financial inclusion through fintech and payment innovations.

- 2.7 The second proposed initiative related to bank account portability. A study conducted on this highlighted that a KYC database and the development of a central credit registry would need to be in place to support the ease at which customers move their bank accounts across banks.
- 2.8 In addition to these initiatives, work was also in progress to enhance transparency in the banking system, which would be addressed as part of the financial consumer protection legislative framework.
- 2.9 The presentation was made for information.

3.0 Discussion

- 3.1 The Committee welcomed the proposed initiatives put forward by staff to manage the concentration of liquidity and improve bank intermediation. In particular, the MPC endorsed the proposal for bank account portability along with the proposed development of a central credit registry that would support the existing credit bureaus, enhance deposit portability and ultimately, the level of competitiveness among banks.
- 3.2 Concerning the estimated current account threshold, the MPC was informed that it would be adjusted to reflect the implementation of the liquidity coverage ratio (LCR). It was noted that with the implementation of the LCR, the threshold could decline and interest rates could increase as the need to hold short-term assets fall.
- 3.3 In terms of future work, it was suggested that BOJ relook its classification of the categories of lending to ensure that the assigned classifications were still relevant to the evolving financial environment.

4.0 Any other Business

- 4.1 There was no other business raised for discussion.

5.0 Adjournment of the Meeting

5.1 There being no other business, the Chairman adjourned the meeting on 10 December 2021 at 12:05 p.m