

FINANCIAL POLICY COMMITTEE STATEMENT

On the occasion of its meeting of 06 May 2022 and on its review of the financial system's performance and risks up to the March 2022 quarter, the Financial Policy Committee (FPC) issues the following statement, which can be read as an update to the FPC's Statement of 08 April 2022 on the Annual Financial Stability Report:

The domestic economy showed signs of recovery during the December 2021 and the March 2022 quarters and is projected to record further improvements during 2022. However, inflation at March 2022 remained above the upper limit of Bank of Jamaica's target range and is projected to continue to breach the target range over the next 10 to 12 months. This development is due to the impact of the invasion of Ukraine by Russia and supply chain disruptions on the prices of imported commodities. In this context, BOJ further tightened monetary policy in the March 2022 quarter.

The monetary policy actions of the central bank resulted in a tightening of financial conditions, reflected in a notable reduction in deposit-taking institutions' (DTIs) liquid balances held at the central bank and increases in money market interest rates. In this context, interest rates on new loans offered by DTIs increased only marginally over the quarter. However, the expansion in DTIs' credit to the private sector slowed noticeably to 6.6 per cent for the year ended February 2022, from 7.6 per cent at end-December 2021.

Notwithstanding tighter financial conditions, financial institutions remained resilient. DTIs maintained adequate levels of capital up to February 2022, while other financial soundness indicators such as liquidity and profitability remained relatively strong. The quality of the overall loan portfolio and that of the household sector in particular, remained healthy, even as the stock of non-performing loans remained well within prudential norms. Systemic risks associated with the financial cycles have moderated while maturity mismatch and liquidity ratios remained at acceptable levels. In addition, contagion risks within the financial system remained well-managed.

Importantly, Bank of Jamaica's stress tests showed that the Jamaican financial system remains largely resilient to large macroeconomic and financial shocks. As it relates to interest rate shocks,

financial institutions continue to proactively manage their portfolios and are well-capitalized to withstand the potential impact of tightened monetary policy on their balance sheets.

Financial Policy Committee

10 May 2022