BANK OF JAMAICA STATEMENT

12/09/2020

THE RESILIENCE OF THE JAMAICAN FOREIGN EXCHANGE MARKET

THE COVID-19 EFFECT

A dispassionate assessment of Jamaica's foreign exchange (FX) market at this time, in the context of a global pandemic, tells a story of **both** bad and good news, and it is important that we do not limit our sentiments and reactions to one side of the story. Instead, we should react responsibly to both sides in balance.

The major bad news, as we all know, is that as a direct result of the COVID-19 pandemic, tourism inflows, our biggest sources of foreign exchange earnings, remains practically at a standstill.

Bank of Jamaica (BOJ)'s current estimates of the value of the drastic fallout in FX inflows for the 2020/21 fiscal year are a best-case scenario of US$800 million, and a worst-case scenario of US$1.4 billion.

It is important to note as always, however, that the entire sum of the country's FX earnings does not all come to the market, so whatever the fallout in total earnings, the real fallout in the FX market would be a bit less.

CENTRAL BANK INITIATIVES

In contrast, the good news is that in several ways, including but not limited to direct sales intervention, **BOJ has, since March this year, acted decisively to implement an assortment of measures, all designed to supply extra FX liquidity to the financial system, even though the system is not short of FX liquidity.** These measures included selling some US$256 million directly to Jamaica Public Service and Petrojam to remove that source of pressure from the FX market, in addition to various actions to ensure that all financial institutions have increased access to FX liquidity.

What this means is that **BOJ has already proactively compensated for a large part of the FX deficit we expect to face this year. Specifically, these measures have already**

provided roughly of US$700 million in FX liquidity support to the financial system, of which some US$78 million has already been repaid.

ROBUST REMITTANCES

At this point we must recognize and express our most sincere gratitude to our brothers and sisters in the Diaspora, because further good news is that they too are currently doing their best to plug the hole of our FX earnings fallout.

Incredibly, while the global forecast is for remittances to decrease by 20 per cent in 2020, remittances to Jamaica have INCREASED since May, recording a 15.7 per cent increase in May and a 41.6 per cent increase in June, after a very small decline in the first quarter. In the true spirit of Jamaica, our relatives and friends send home more when times are hard, not less.

What all this adds up to is that right now, despite the presence of a pandemic, Jamaica's FX market is adequately funded and THERE IS NO SHORTAGE OF FOREIGN EXCHANGE.

AN ADEQUATELY FUNDED FX MARKET AND A FLEXIBLE FX RATE

Evidence of this can be found in the daily trading volumes, which we publish daily. From 2015 to the onset of COVID-19 in March 2020, average daily sales in the FX market was US$32.43 million, peaking at US$35.18 million in 2019. Prior to the onset of the pandemic, average daily sales in the market this year from January to March was US$34.33 million. Since the pandemic, the average of daily sales has been only slightly lower at US$ 31.12 million, with sales volumes in excess of US$40 million on several days, and sometimes as high as US$60 and US$70 million.

What this paints is a picture of a market that is so far showing resilience in the face of the ongoing pandemic.

An even clearer picture was painted on Tuesday, September 1, 2020, when Bank of Jamaica intervened in the market, offering US$20 million via a B-FXITT[1] flash sale. For the first time since the start of 2020, the market did not ask for more than what was being offered. The market did not even ask for half of it. **BOJ received bids for only US$7.8 million, or 39 per cent, of what was offered. This is an emphatic and**

[1] Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT)

unequivocal indication that the FX market is presently adequately funded and in no need of extra funds.

It must also be noted that the newly reformed FX market continues to operate in the way that an FX market is supposed to work. The exchange rate is supposed to act like an elastic band that contracts and expands automatically to transparently reflect the state of the market and the overall economy. In the face of reduced inflows, therefore, it is logical for the rate to depreciate. However, the rate has also reacted logically to the recovery in remittance flows as well as the presence of robust liquidity in the system, and so **in the middle of a pandemic, the exchange rate continues to move, as it should, in both directions. Market participants should note this carefully and act accordingly.**

LIQUIDITY ASSURANCE BACKED BY STRONG RESERVES

As we have already done, we will provide extra liquidity in unusual times, but beyond that, BOJ intervenes ONLY if we see or expect disorderly movements in the exchange rate that could threaten the inflation target.

Bank of Jamaica, in collaboration with the banking system, assures the public of our commitment to provide adequate liquidity to the FX market.

With gross reserves of US$3.7 billion, Jamaica is in a much stronger position than we were in any previous crisis in recent history. These reserves will be adequate to see us through this temporary crisis if judiciously managed, and we intend to do just that.

Against this background, we all have a choice as to how we individually and collectively interact with the foreign exchange market.

CONCERN SHOULD NOT EQUAL PANIC

In reaction to the bad news of a pandemic, it is normal and in fact prudent to be concerned about a drop in inflows, because we cannot predict exactly how long this crisis will last. However, this concern should not translate to panic, as there is no need for it.

CONFIDENCE SHOULD NOT EQUAL COMPLACENCY

On the other hand, in reaction to the good news that current market volumes are very healthy and there is no shortage of FX, **we should still demonstrate cautious and responsible behaviour.** The bottom line, and what we should all remember, is that **the health of the financial system, the robust level of remittance inflows, the vigorous volumes present in the market, and the strength of BOJ's foreign reserves, all combine to indicate clearly that the economy at this time has more than enough FX at our disposal to safely navigate the rough waters of this crisis.**