

THE FOREIGN EXCHANGE MARKET

The Bank of Jamaica has taken note of public concern about the pace of depreciation of the Jamaica Dollar. The depreciation has occurred in the context of extended negotiations with the International Monetary Fund (IMF) for a new borrowing programme and some uncertainty regarding the extent of external financial support. These concerns have been exacerbated by the fall in the Bank's net international reserves. The Bank observes that the marked reduction in private capital inflows and the rise in hedging activity could lead to the emergence of disorderly conditions in financial markets.

The excess demand for foreign exchange that has been reflected in the movement in the exchange rate is overwhelmingly attributable to portfolio transactions and the early settlement of foreign obligations rather than an increased demand for imports. The most recent data on the balance of payments for 2012 reflect a narrowing of the current account deficit as imports, especially fuel, have fallen and exports have risen. That improvement is estimated to have continued into the March 2013 quarter. The build-up in foreign exchange demand is thus related to uncertainty about IMF support for the country's economic programme.

That uncertainty is now in retreat. The IMF announced yesterday that the Fund management will recommend Jamaica's programme to its Executive Board for a 48-month arrangement under the Extended Fund Facility (EFF) in the amount of US\$958 million. They expect that the Board meeting will take place by the end of April. The amount represents US\$200 million more than the amount that was initially announced. In addition, the World Bank and the IDB have also announced that each institution has preliminarily allocated US\$510 million in financing over the next four years. This supplements the financing provided by the IMF and signifies that Jamaica's economic programme will enjoy strong multilateral support.

The Bank remains committed to a flexible exchange rate but will act decisively to prevent disorderly conditions from emerging. As a first step, the Bank is issuing a one-year US-Dollar Indexed Note over the period 9–11 April 2013. This will reduce Jamaican dollar liquidity and reduce demand for US dollars as it offers an attractive alternative instrument for investors.

The Bank will continue to monitor developments in financial markets closely and will take further action if needed.

Bank of Jamaica