



**FINANCIAL SYSTEM STABILITY COMMITTEE ISSUES
STATEMENT ON FINANCIAL STABILITY**

On the occasion of its meeting on 30 October 2020 and on its review of financial system risks since the onset of the COVID-19 pandemic, the Financial System Stability Committee (“FSSC”) issued the following statement:

“The Financial System Stability Committee (“FSSC”) has reviewed three of Bank of Jamaica’s (BOJ) periodic Macprudential Policy Reports since the onset of the Covid-19 pandemic in mid-March 2020. Prior to the pandemic, the Jamaican financial system held capital and liquidity positions that were sufficient for withstanding large but plausible stress scenarios.

The initial shock associated with the pandemic involved simultaneous declines across asset markets, which resulted in significant encashment demands, placing liquidity constraints on some financial entities. There has also been a significant fall-off in income and employment during the quarter immediately following the outbreak of the crisis, which has affected the credit quality of some borrowers. The pass-through effects of restrictions aimed at curtailing the spread of the virus have elevated risks to the financial system, which in turn implies further risks to the real economy as it requires the financial sector to function normally by providing loans to stressed sectors.

Since March 2020, deposit-taking institutions (DTIs) have offered loan repayment moratoria to households and businesses, to help manage their financing needs. In addition, DTIs and entities designated as financial holding companies have suspended the distribution of profits by way of dividends in an effort to conserve capital.

Thus far, the financial system has continued to maintain adequate capital and liquidity but BOJ's stress testing exercises show that credit exposures and the risks associated with debt repayment by individuals and businesses have risen.

Response and Safety Net

Supervisory bodies have strengthened the regulatory safety net since the onset of the pandemic. The monitoring of the financial system has been intensified while information sharing and collaboration between BOJ, the Financial Services Commission (FSC) and the Jamaica Deposit Insurance Corporation (JDIC) has increased. In addition, since the onset of the pandemic, the various regulatory agencies have been maintaining close dialogue with their respective financial sector stakeholders.

Each agency has taken various actions to help buffer the impact of the COVID-19 induced economic recession. Bank of Jamaica continues to ensure that the banking system has adequate Jamaica dollar liquidity and that licensees remain sound. To help bolster market liquidity BOJ, inter-alia, reduced the Jamaica dollar and foreign currency cash reserve requirement cash reserve requirements of DTIs, instituted a bond buying programme for Government of Jamaica and Bank of Jamaica securities and instituted special repurchase facility for credit unions.

At the same time, the FSC implemented changes to its supervisory framework for non-deposit taking financial institutions. This involved more frequent reporting cycles for licensees of the insurance and securities sectors for the assessment of early warning indicators associated with funding liquidity. The FSC has also granted forbearance on investment limits for Collective Investment Schemes and has relaxed measures relating to large exposure limits, maturity mismatch in retail repo book and capital adequacy.

Even further, to ensure the adequacy of Jamaica's deposit insurance fund available to treat with any potential resolution activity, the JDIC has adjusted its investment strategy, reflected in its Investment Guidelines for fiscal year 20/21, by shortening the tenor on placements while increasing the deposit insurance coverage limit to \$1.2 million from \$600,000.00, effective August 31, 2020.

Future Considerations

The current macroeconomic projections indicate a significant decline in GDP for fiscal year 2020/21, followed by a partial recovery in the following year. The risks to this projection is considered to be on the downside, that is, GDP may take longer to recover because the length and depth of the economic strains associated with curtailing the spread of the virus remains largely unknown.

Financial markets could therefore remain bearish while balance sheet performance across the financial system could remain weak. A prolonged down-turn of the economy will imply worsening business and labor market conditions, thereby increasing the credit risk exposures of financial entities. Financial conditions could also be magnified if volatility in asset prices re-emerges. These scenarios emphasize the need for the continuation of a cautious approach by financial entities and the further shoring up of the system by regulators.

The FSSC expects that the proactive efforts by financial institutions, regulators and the Government of Jamaica will facilitate the continued soundness of the financial system and adequate liquidity in financial markets.

The FSSC will continue its regular review of financial system stability assessments and make recommendations to assist in the execution of Bank of Jamaica's financial system stability mandate. The FSSC expects to make its next public statement on these and other emerging issues in March 2021. Highlights of Bank of Jamaica's quarterly macroprudential report are available at http://boj.org.jm/financial_sys/Financial_Stability_FSSC."

Financial System Stability Committee
6 November 2020

Background:

The FSSC is a statutory committee established under section 34H of the Bank of Jamaica Act, as amended. Its job includes reviewing developments in the financial system and the economic environment, advising on macroprudential policy, engaging with stakeholders, and providing oversight of financial stability assessments prepared by Bank of Jamaica staff.

The financial stability mandate of the FSSC and Bank of Jamaica provides a statutory foundation for the identification, mitigation and control of systemic threats to financial system stability, based on assessments of vulnerabilities within the financial system as a whole, as well as those arising from the links between the financial system and developments in other parts of the Jamaican economy and the global economy. Bank of Jamaica, in consultation with the FSSC, is empowered to develop prescriptive rules, standards and codes for financial institutions which specifically address gaps and imbalances that could threaten financial system stability as a whole.

This oversight complements and does not replace the responsibilities and authority of Bank of Jamaica and the Financial Services Commission to supervise and regulate, respectively, the deposit-taking, insurance, securities and pensions industries. Bank of Jamaica and the Financial Services Commission also meet regularly with the Jamaica Deposit Insurance Corporation and the Ministry of Finance on the Financial Regulatory Committee, a statutory committee also established in 2015 to foster timely information-sharing, coordinated policy development and effective crisis management with respect to the financial sector.

The FSSC consists of six *ex officio* members and two members appointed by the Minister of Finance on the recommendation of the Bank of Jamaica Governor. The appointed members are Mr. David Marston, former Chief Risk Officer of the International Monetary Fund and Professor Claremont Kirton, retired Professor of the Department of Economics at The University of The West Indies, Mona campus, Jamaica. Both were appointed on 02 January 2020 for a term of three years. The *ex officio* members are Bank of Jamaica Governor Richard Byles (Chair), Financial Secretary Darlene Morrison, Senior Deputy Governor Wayne Robinson, Deputy Supervisor Maurene Simms, Financial Services Commission Executive Director Everton McFarlane and Jamaica Deposit Insurance Corporation CEO Antoinette McKain.