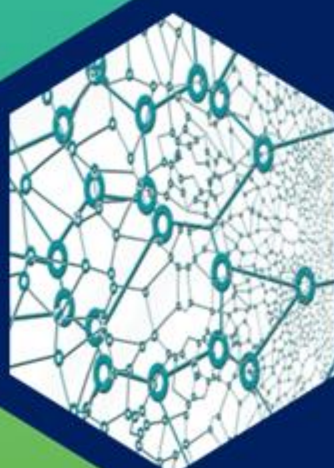
MITIGATE AND PREVENT EXCESSIVE CREDIT GROWTH AND LEVERAGE

MITIGATE AND PREVENT EXCESSIVE MATURITY MISMATCHES AND MARKET ILLIQUIDITY

LIMIT DIRECT AND INDIRECT EXPOSURE CONCENTRATIONS

LIMIT THE IMPACT OF INTERCONNECTED-NESS, SYSTEMIC IMPORTANCE AND MISALIGNED INCENTIVES



STRENGTHEN THE RESILIENCE OF THE FINANCIAL SYSTEM & INFRASTRUCTURE

BANK OF JAMAICA

Macroprudential Policy Report

Highlights

March 2025

Preface

The quarterly Macroprudential Policy Report serves as a tool by the Bank of Jamaica to assess and communicate the health, risks, and resilience of the financial system. This stability is essential for sustained economic growth and the proper functioning of financial markets. These financial system stability assessments inform the Bank's macroprudential policy. This report provides highlights of those assessments for the reporting quarter. The aim of the report is to:

- *Convey Bank of Jamaica's current financial system stability assessment.*
- *Make clear the link between the Bank's assessment and any policy action taken.*
- *Provide information on matters related to financial system stability to promote the understanding of stakeholders.*

A stable financial system is characterized by its ability to effectively perform its core functions—facilitating the efficient allocation of resources, managing financial risks, and maintaining resilience during economic shocks—without causing widespread disruptions.

Table of Contents

Overview

Recent developments in the United States' (US') immigration and trade policies, with reciprocation by its major trading partners, have contributed to heightened global economic uncertainties. The uncertainties have led to a decline in US gross domestic product (GDP) for the March 2025 quarter and downward revisions to the growth forecast. Several other major economies are projected to record slower growth. Financial markets in the US also exhibited increased volatility. Consequently, some of the major central banks, including the Federal Reserve, have paused their monetary policy easing cycles.

Notwithstanding these developments, domestic macro-financial conditions remained broadly stable during the March 2025 quarter, relative to the prior two quarters. This performance was reflected in real GDP growth, a moderation in inflation and relatively stable financial market conditions. The Bank's composite measures of financial stability remained well below the established financial crisis thresholds, indicating the continued health of the financial system. Other indicators of financial stability, including capitalisation, liquidity and asset quality measures remained broadly stable and above prudential benchmarks. However, the profitability of the sector continued to fall, reflecting generally higher operating expenses and slower income growth.

The trajectory for global and domestic macro-financial conditions remains uncertain in the context of the ongoing trade war and other policy actions. A prolonged trade war could put upward pressure on domestic inflation, which may in turn necessitate more restrictive monetary policy, drive volatility in financial markets and dampen output growth. The implications of these developments for the financial system include negative changes in asset prices and further reductions in profitability. Moreover, the highly interconnected nature of the financial sector and the presence of systemically important financial institutions heighten the potential for stress in a financial institution to trigger broader spillover or contagion effects.

As such, stress tests and contagion simulations were conducted to determine financial institutions' resilience to various credit-related and market risk shocks. The results of the assessments indicated that the respective financial system sub-sectors' capital buffers remain sufficient to absorb the contemplated macro-financial shocks. However, there continues to be selected instances of vulnerability to selected shocks that would need to be remedied by additional capital injections.

Other potential near-to-medium term risks include climate-related financial risks, cyber risks and the possibility of an economic downturn or recession.

The Supervisors of the financial sector will continue to conduct ongoing monitoring and risk assessment and determine, where necessary, the most appropriate policy response to minimise risks and to promote financial system stability. Of note, the Bank will conduct detailed assessments of the implications of its planned programmes of reforms for the sector and, where necessary, will adjust the pace of implementation of these reforms.

The key policy initiatives that are being considered for implementation in the short- to medium-term include:

a) *Joint efforts by Bank of Jamaica and the Financial Services Commission to transition to the Twin Peaks model of Supervision.*

b) *Advancement of legislation for a special resolution regime, which will establish an approach to resolution in which non-viable financial institutions deemed systemically important are resolved.*

c) *Implementation of the Basel III Framework, which includes the establishment of a systemic risk buffer intended to address the inherent risk that systemically important financial institutions pose to the financial system.*

1.0 Macroeconomic/Macro Financial Developments

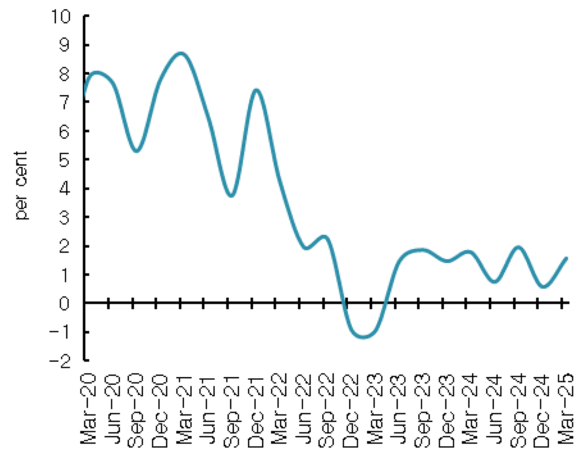
1.1 Real GDP for the Jamaican economy is estimated to have grown marginally in the March 2025 quarter, following declines of 3.3 per cent and 0.8 per cent for the September and December 2024 quarters, respectively. Real economic expansion is projected to continue over the next four quarters, reflecting normalisation in economic activity.

1.2 The annual point-to-point inflation rate was 5.0 per cent at end-March 2025. This outturn was in line with the 5.0 per cent observed at end-December 2024 and represents seven consecutive months of being within Bank of Jamaica's target range. Inflation is projected to broadly remain within the Bank's target range over the next four quarters, with the main upside risk to the projection being the uncertainties associated with potential changes in economic polices among Jamaica's main trading partners.

1.3 The J$:US$ exchange rate depreciated by 1.7 per cent on an annual basis at end-March 2025 compared to a depreciation of 0.6 per cent at end-December 2024 (see **Chart 1.1**).

1.4 In the context of the fall in inflation, the domestic monetary policy stance has been less restrictive. The monetary policy rate was 6.0 per cent at end-March 2025, down from a high of 7.0 per cent at end-July 2024 (see **chart 1.3**). Notably, the passthrough to lending rates was not strong but DTIs' average deposit rate has fallen since end-December 2024.[1]

Chart 1.1 Exchange Rate Movements



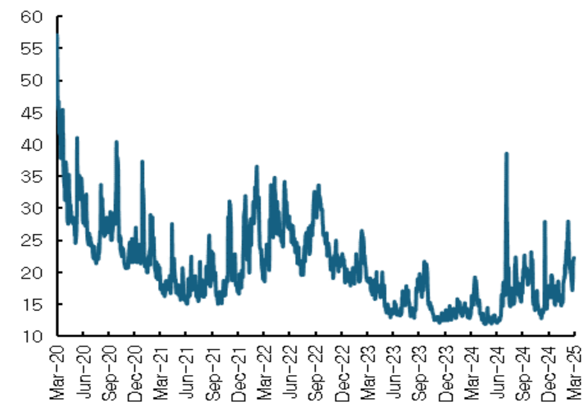
Source: Bank of Jamaica

1.5 The inflation rate for the major developed economies also moderated over the course of 2024, which prompted the major central banks to adopt less restrictive monetary policy stances. However, the emergence of heightened geo-political tensions and uncertainty about the impact of trade policies on inflation caused some to pause rate cuts. Risk free interest rates in the major developed economies also started to rise.

1.6 Heightened market volatility was reflected in the increase in the Chicago Board Options Exchange Volatility Index (VIX). The VIX increased by 4.9 percentage points to 22.3 per cent at end-March 2025 from 17.4 per cent at end-December 2024 (see **Chart 1.2**).

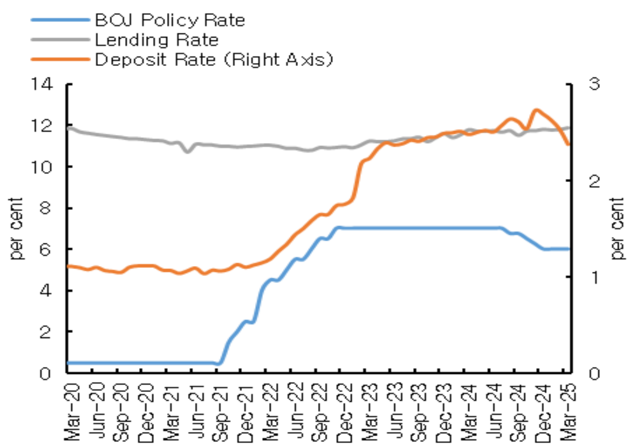
[1] DTIs' average lending rate increased by 7.2 bps at end-March 2025 relative to end-December 2024. However, DTIs' average deposit rate declined by 31.4 basis points over the same period.

Chart 1.2 Chicago Board Options Exchange VIX



Source: Bloomberg

Chart 1.3 Movement in Interest Rates

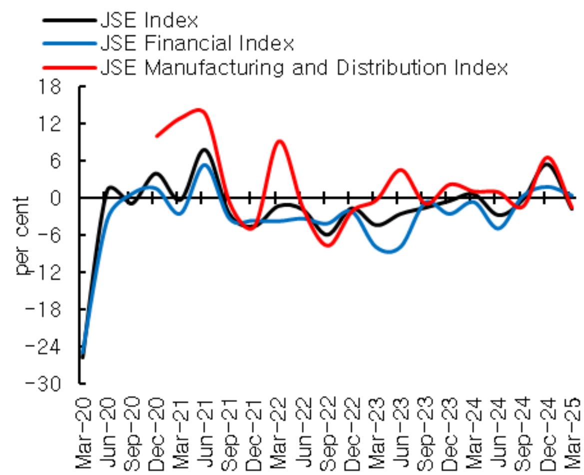


Source: Bank of Jamaica

1.7 In this context, the weighted average GOJ Eurobonds' yield increased by 3.4 bps at end-March 2025 compared to end-December 2024. The bid prices for the longer term GOJGBs (6.75% 2028, 8.00% 2039, and 7.875% 2045) declined by US$0.70, US$0.34, and US$0.54 at end-March 2025 relative to end-December 2024.

1.8 In relation to equities, the JSE Main Market Index declined by 1.7 per cent for the March 2025 quarter compared to an increase of 5.5 per cent for the December 2024 quarter (see **Chart 1.4**). While the JSE Manufacturing and Distribution (M&D) index declined by 1.5 per cent, the Financial Index (FI) increased marginally by 0.5 per cent.[2] The mixed results of the JSE Indices occurred in the context of a higher quarterly return on equity for the DTI sector.

Chart 1.4 Quarterly Growth in Select JSE Indices



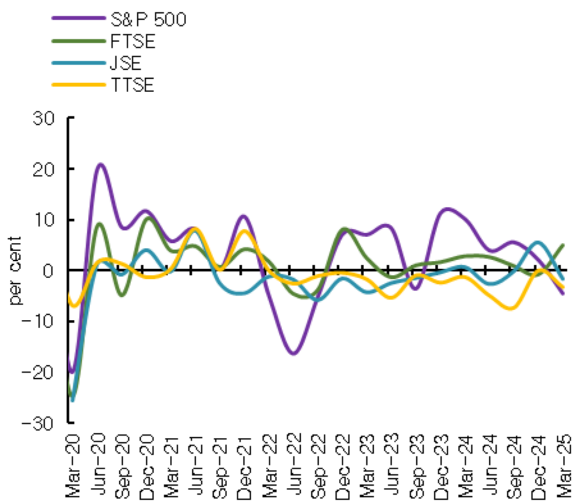
Source: Jamaica Stock Exchange

1.9 During the March 2025 quarter, select global stock market indices displayed mixed results relative to the December 2024 quarter (**see Chart 1.5**). The S&P 500 and TTSE declined by 4.6 per cent and 3.2 per cent, respectively, while the FTSE increased by 5.0 per cent.

[2] The JSE FI measures the performance of only the financial companies listed on the Main Market and Junior Market. The JSE M&D Index measures the performance of only the manufacturing and distribution companies listed on the Main Market and Junior Market.

The decrease in the S&P 500 occurred in the context of uncertainty surrounding US Trade Policy.[3]

Chart 1.5 Quarterly Growth in Select Global Stock Market Indices



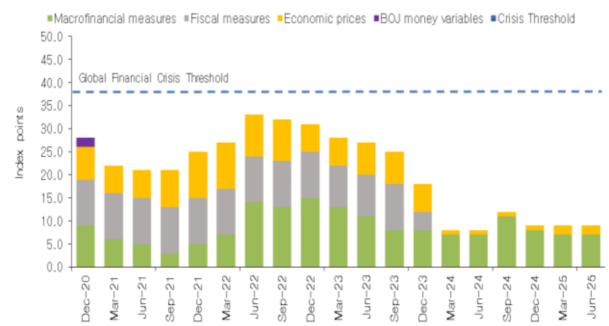
Source: Bloomberg, Jamaica Stock Exchange, and Trinidad and Tobago Stock Exchange

Macro-Prudential Indicators

1.10 Aggregate measures of financial stability in Jamaica for the March 2025 quarter remained generally stable compared to the previous quarter.[4] The macro-financial index (MaFI) remained at 9.0 points for the review quarter, relative to the December 2024 quarter and stayed well below the threshold that signals the emergence of a crisis (see **Chart 1.6**).This was due to low debt, a relatively stable foreign exchange rate and lower inflation volatility.

1.11 Similarly, the micro-prudential index (MiPI) remained relatively unchanged at 28.0 points for March 2025, when compared to the December 2024 quarter. This outturn therefore remained below the crisis threshold of 50.0 points, primarily driven by an improvement in the net income to total assets ratio, which was offset by a deterioration in the financial institution loans to total loans ratio (see **Chart 1.7**).[5]

Chart 1.6 Macro-Financial Index



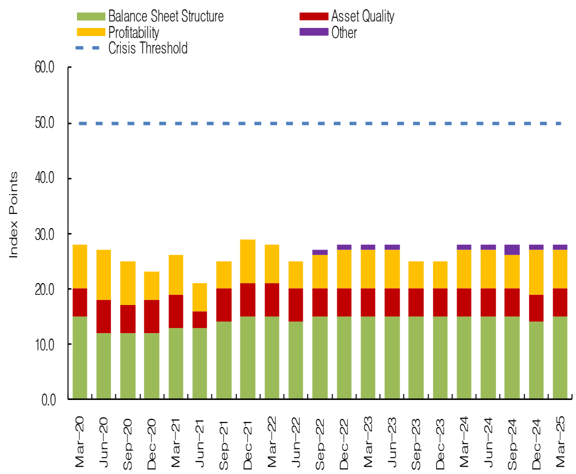
Source: Bank of Jamaica

[3] The advanced estimate from the Bureau of Economic Analysis (BEA) showed that US real economic activity contracted by 0.3 per cent in the March 2025 quarter compared to an expansion of 2.4 per cent in the December 2024 quarter. Relative to the fourth quarter, the contraction in real GDP in the first quarter reflected an upturn in imports, a deceleration in consumer spending, and a decline in government spending which were partly offset by increases in investment and exports.

[4] The index trended up during the latter part of 2024 capturing weak economic growth due to Beryl but subsequently improved.

[5] The Micro-prudential Index, comprising 21 key financial indicators for the banking sector, monitors micro-financial indicators of the banking sector using the same signals-based approach as that which is used in the MaFI.

Chart 1.7 Micro-Prudential Index



Source: Bank of Jamaica

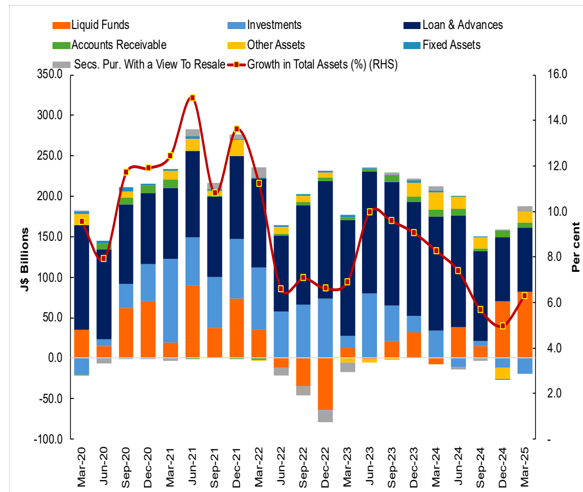
System Evolution

Balance Sheet Indicators

1.12 **In the context of the estimated return to modest real GDP growth during the review quarter, DTIs' assets expanded at a faster pace when compared to the previous quarter.** Specifically, DTIs' assets grew by 6.3 per cent (y-o-y) to $2 850.1 billion at end-March 2025, faster than the growth of 5.0 per cent (y-o-y) at end December 2024. The growth in assets was primarily driven by increases of 20.3 per cent and 5.5 per cent in *Liquid Funds* and *Loans, Advances & Discounts,* respectively, which were partly offset by *a* contraction of 3.3 per cent (y-o-y) in *Investments at end-March 2025 compared to the previous year* (see **Chart 1.8**).

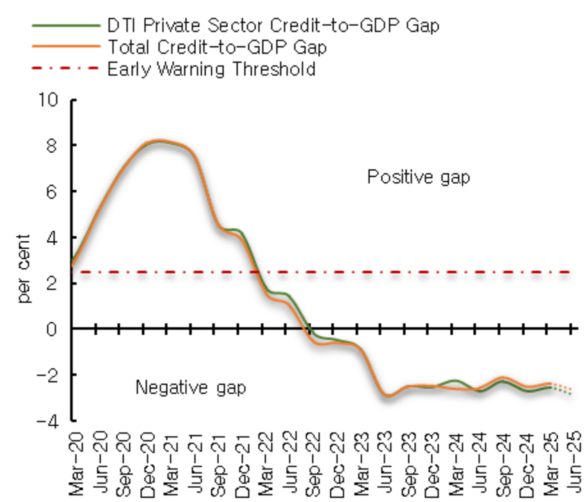
1.13 **For the March 2025 quarter, DTIs' loan portfolio saw a modest uptick in growth but continued to reflect underlying weaknesses in credit conditions and the macro-environment.** The DTI loan portfolio expanded by 5.7 per cent (y-o-y) at end-March 2025, relative to growth of 5.6 per cent (y-o-y) in the previous quarter

Chart 1.8 Annual Change in DTI sector composition of Assets (including growth rate)



Source: Bank of Jamaica

Chart 1.9 Credit-to-GDP Gap Indicators



Source: Bank of Jamaica

1.14 Notwithstanding the growth of DTI's loans, the credit-to-GDP gap indicators continued to reflect soft credit conditions during the March 2025 quarter.[6,7] The total credit-to-GDP gap marginally increased to -2.4 per cent at end-March 2025 compared to -2.5 per cent at end-2024 (see **Chart 1.9**).[8] The total credit-to-GDP gap is projected to decline at end-June 2025, continuing to reflect relatively soft credit conditions since end-September 2022.[9,10]

1.15 **On the liabilities side, there was continued growth over the review period**. Specifically, DTI aggregate liabilities expanded by 5.8 per cent (y-o-y), showing faster growth when compared to the growth of 5.1 per cent (y-o-y) for the year ended December 2024. Deposits remained the primary source of funding for the DTI sector, accounting for 82.1 per cent of DTIs' total liabilities at end-March 2025. The increase in DTIs' liabilities reflected some licensees opting to increase rates on several deposit products to attract deposit funding in the context of previously tight JMD liquidity conditions.

Securities Dealers

1.16 **Securities dealers (SDs) on the other hand continued to adjust their balance sheets to manage risks and preserve their income.** Securities dealers' assets grew by 3.9 per cent to $940.7 billion at end-March 2025, slower than the prior year's growth of 7.2 per cent.[11, 12] This growth continued to be primarily driven by increases of 21.7 per cent, 10.2 per cent and 2.0 per cent in *Liquid Funds*, *Accounts receivable* and *Investments*, respectively (see **Chart 1.10**).[13]

1.17 **Securities dealers' investment portfolio continued to show a strategic pivot towards safer, lower-risk assets.** SDs shifted their focus to domestic GOJ securities during the review period, reflected in an increase of 11.2 per cent in *Public sector domestic securities* at end-March 2025, compared to end-March 2024 (see **Chart 1.11**). On the other hand, the sector reduced its holdings of *Foreign Government Securities* and *Other foreign currency investments* by 3.3 per cent, and 1.2 per cent, respectively. The shift in investment primarily reflected some SDs' continued efforts to rebalance their portfolios to bolster their income.

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[6] The credit-to-GDP gap indicator measures the deviation of credit-to-GDP from its long-term trend. It is a systemic risk indicator associated with financial cycles which signals the extent of credit risk accumulation. A positive outturn indicates credit is growing faster than its long-term trend and may signal excessive credit expansion. Negative values indicate credit is below its long-term trend and may indicate tight credit conditions or deleverage in the economy.

[7] Total credit used to calculate the credit-to-GDP gap is comprised of private sector credit, credit issued to the public sector and corporate securities held by DTIs. Nominal GDP is annualized by calculating a 4-quarter moving sum. The trend in credit/GDP is estimated using the Hodrick Prescott (HP) filter data smoothing econometric technique.

[8] This outturn was below both the Bank of International Settlements' (BIS) upper threshold of 10.0 per cent and BOJ's early warning threshold of 2.5 per cent for financial-cycle-related credit risks.

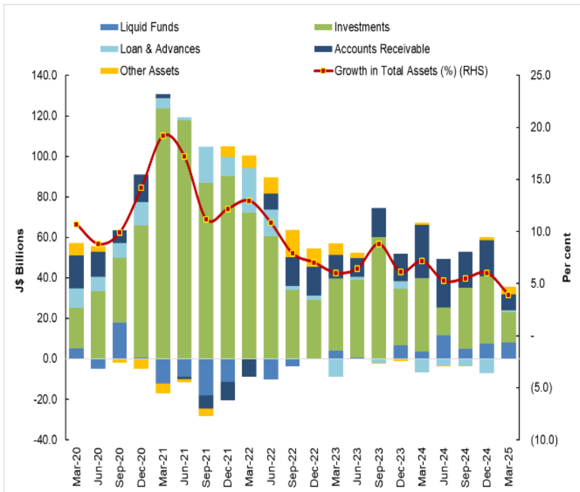
[9] The total credit-to-GDP gap is projected to decline by 0.3 percentage points to -2.7 per cent at end-June 2025. This projection is based on projected quarterly growth in private credit and nominal GDP of 2.0 per cent and 2.4 per cent, respectively.

[11] The SDs sector includes thirty-three (33) listed securities dealers, of which twenty-six (26) are primary or core dealers. The analysis focuses on the top 10 dealers, which represent 94.4% of the sector based on data up to the end of 2024.

[12] Notably, SDs' total assets grew by 0.5 per cent ($5.0 billion) at end-March 2025, compared to the previous quarter ended-December 2024, largely due to increases in *Liquid funds* and *Accounts receivable*.

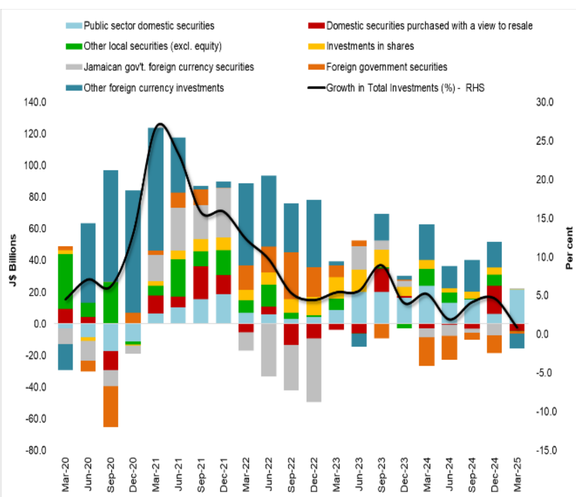
[13] *Liquid Funds* accounted for the largest growth in SDs total assets. However, Investments continued to account for the largest share of SDs' asset base at end-March 2025, with a share of approximately 80.0 per cent of SDs' asset base, broadly similar to what obtained in the year prior.

Chart 1.10 **Annual change in securities dealers' total assets**



Source: FSC

Chart 1.11 **Composition of SDs' investments**



Source: FSC

1.18 **SDs' asset expansion during the review period was primarily supported by the continued growth in repo liabilities.** The growth in repo liabilities was largely attributed to an expansion of 22.0 per cent in *Repo liabilities with Non-Financial Corporate Clients* (NFCCs), reflecting SDs' efforts to diversify funding sources and reduce funding costs.

Insurance Sector

1.19 For the insurance sector total assets grew by 1.6 per cent to $570.5 billion at end-2024, slower than growth of 3.1 per cent in the September quarter.[14, 15] This growth continued to be primarily driven by *Investments*, which contracted by 5.9 per cent over the review period, compared to the previous quarter.[16] This primarily reflected insurers' efforts to minimize their exposure to market volatility due to heighted uncertainty.

1.20 **In addition, insurance companies continued to rebalance their investment portfolios to improve their investment returns and address the ongoing profitability challenges faced by the sector.** In particular, during the review period, life insurance companies reduced their holdings of *GOJ securities (1 year or less)*, to acquire longer-term, higher yielding *GOJ securities (over 1 year)* and equity (see **Chart 1.12**).[17, 18]

[14] The growth in insurance industry assets continued to be largely driven by the life insurance sector, which grew by 2.7 per cent at end-December 2024, representing 82.2 per cent of the industry's total assets. This growth however, was offset by a 3.0 per cent contraction in the general insurance sector's assets during the period.

[15] The insurance industry data was revised to account for the implementation of IFRS17, which is an International Financial Reporting Standard that took effect on 01 January 2023 to replace IFRS 4 on accounting for insurance contracts.

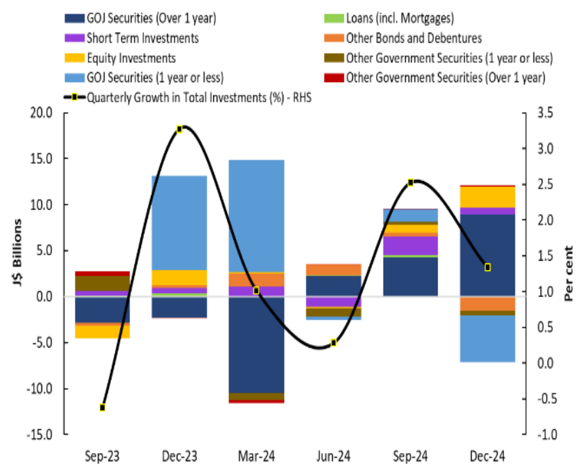
[16] *Investments* accounted for 79.2 per cent and 53.1 per cent of total assets for the life insurance and general insurance sectors, respectively.

[17] This mainly reflected life insurance companies' efforts to reduce potential asset-liability mismatches emanating from previous shifts from GOJ securities (over 1 year) to acquire GOJ securities (1 year or less) in the previous quarter, to reduce the impact of fair valuation losses on their balance sheets.

[18] Of note, Life insurance companies invest primarily in long-term investments, consistent with long-term liabilities associated with life insurance policies, such as death benefits and annuities. This minimizes risks associated with asset-liability mismatch, ensuring that they can meet their future obligations as they become due.

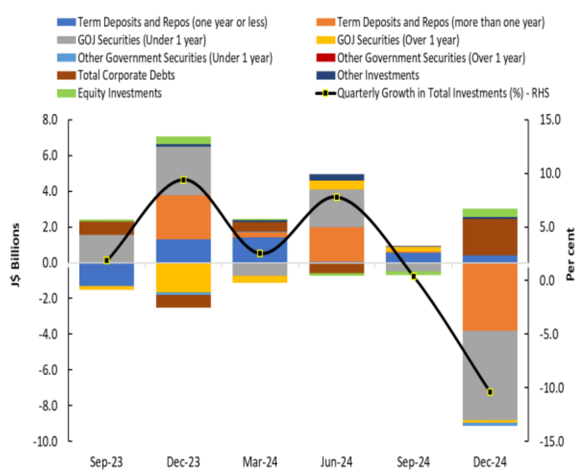
On the other hand, general insurance companies reduced their holdings of *GOJ securities (under 1 year)*, and *Term deposits and Repos (more than one year)*, shifting towards higher-yielding corporate debts (see **Chart 1.13**).[19]

Chart 1.12 Quarterly change in investment composition for the life insurance sector (incl. growth in investments)



Source: FSC

Chart 1.13 Quarterly change in investment composition for the general insurance sector (incl. growth in investments)



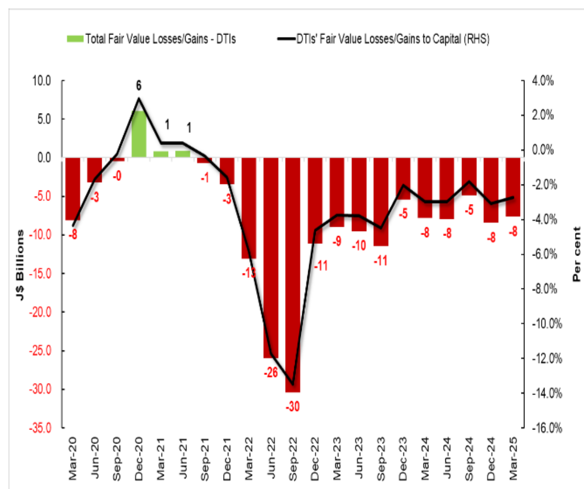
Source: FSC & BOJ

1.21 Asset growth for the insurance industry continued to be primarily supported by the growth performance in insurance contract liabilities. This was mainly driven by an increase of approximately 1.0 per cent in *Insurance contract Liabilities*.

Fair Value Losses

1.22 In the context of anticipated and actual policy rate declines, DTIs' unrealized fair value losses decreased by \$0.7 billion to \$7.7 billion at end-March 2025, relative to the December 2024 quarter.[20] Against this backdrop, the ratio of DTIs' fair value losses to capital decreased to 2.7 per cent at end-March 2025, compared to 3.1 per cent for the previous quarter (see **Chart 1.14**).

Chart 1.14 Trends in Fair Value Losses for DTIs



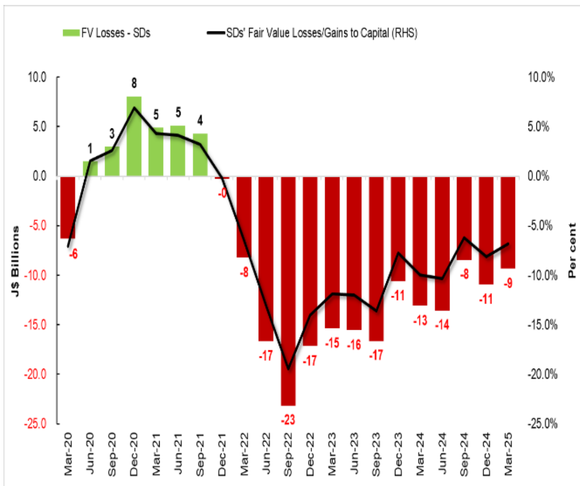
Source: Bank of Jamaica

[19] Of note, the general insurance sub-sector's investment portfolio continued to be concentrated in term deposits, particularly with other domestic financial institutions, as well as repurchase agreements, accounting for 45.4 per cent of general insurance sector's total investments at end-2024.

[20] Notably, DTIs continue to reduce their holdings of GOJ bonds in favor of foreign securities. However, long-term GOJ bonds also continue to be the most significant security holdings among DTIs.

1.23 At end-March 2025, SDs' fair value losses decreased by $1.6 billion to $9.3 billion for the December 2024 quarter. In this context, the ratio of SDs' fair value losses to capital improved by 1.3 percentage point to 6.8 per cent at end-March 2025, compared to end-December 2024 (see **Chart 1.15**).

Chart 1.15 Trends in Fair Value Losses for SDs



Source: Bank of Jamaica

2.0 Macro-Prudential Risk Assessment

Credit Risks

2.1 Indicators of credit risk within the DTI sector remained fairly stable over the review period. This relative stability in the ratios occurred despite increases in aggregate NPLs and PDLs, owing to the concurrent expansion in DTIs' overall loan portfolio.

2.2 On the other hand, there was a modest uptick in the growth of PDLs, which expanded by 8.0 per cent (y-o-y), relative to growth of 7.8 per cent (y-o-y) for the previous quarter. The uptick in PDLs was due to the growth in the loan stock.

2.3 **To mitigate credit risk, DTIs continued to maintain high levels of provisioning during the review period.** The NPL coverage ratio improved marginally to 112.7 per cent at end-March 2025 from 111.0 per cent at end-December 2024.[21, 22] This coverage ratio, above the 100.0 per cent prudential benchmark, signalled the sector's preparedness to absorb potential loan defaults and maintain stability.

Market Risks

Foreign Exchange Risk

2.4 Foreign currency risk within the DTI and SD sector remained fairly stable over the review quarter. DTIs' foreign currency investment holdings as a proportion of total investments remained relatively flat at approximately 29.0 per cent at end-March 2025 compared to end-December 2024. Similarly, SDs' foreign currency investment holdings as a proportion of total investments fell marginally to 50.2 per cent at end-March 2025 from 50.7 at end-December 2024.

2.5 At end-March 2025, the DTI sector recorded a net open *short* FX position to capital of 5.9 per cent, relative to a *short* position of 13.5 per cent at end-December 2024, reflecting the

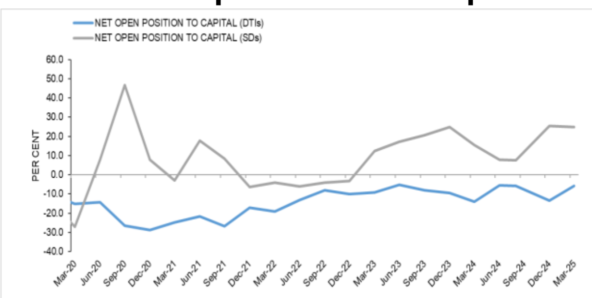
[21] NPL coverage ratio measures a bank's ability to absorb potential losses from its non-performing loans. It is calculated as provisions for impairment under the International Financial Reporting Standards (IFRS) plus prudential provisions for expected losses based on regulatory criteria as a ratio to NPLs.

[22] The prudential benchmark for the NPL coverage ratio is 50.0 per cent.

continued effort to reduce their FX risk exposure.[23]

2.6 The SD sector recorded a net open *long* FX position to capital of 24.9 per cent at end-March 2025, relative to a long position of 25.5 per cent at end-December 2024, which also signals a reduction in FX risk exposure (see **Chart 2.1**).[24]

Chart 2.1 Net Open Position to Capital



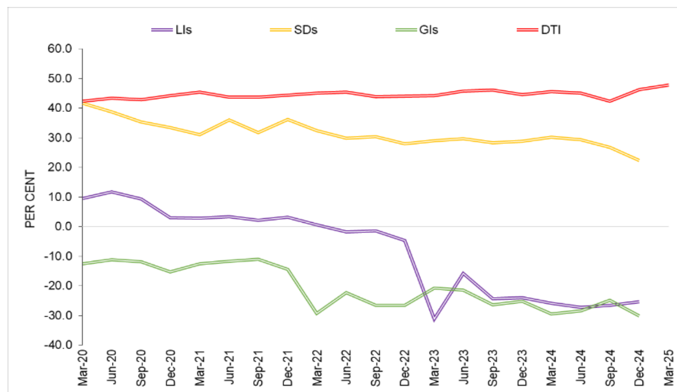
Source: Bank of Jamaica and Financial Services Commission

Maturity Transformation Risks

2.7 The maturity transformation ratio for the financial system, which measures the maturity mismatch between assets and liabilities, remained fairly stable and within historical norms.[25] For the period ended March 2025 the maturity transformation risk metric for DTIs increased to 47.7 per cent, up from 46.3 per cent at end-December 2024. This uptick mainly reflected an increase in long-term assets relative to long-term liabilities and equities (see **Chart 2.2**).

2.8 For the SD sector, the maturity transformation index declined to 22.4 per cent at end-December from 26.8 per cent at end - September 2024. This outturn primarily reflected an increase in long-term liabilities and equity, which was more than the slight rise in long-term assets. Similarly, the metric for general insurance companies declined, while life insurance companies recorded a modest improvement (see **Chart 2.2**).[26]

Chart 2.2 Maturity transformation (long term) DTIs, securities dealers, life and general insurance companies



Source: Bank of Jamaica and Financial Services Commission

23 The net open (FX) position across the selected foreign currencies for each institution is the sum of the foreign currency spot position, net forward position and the foreign currency guarantees that are certain to be called and likely irrevocable. The spot position is calculated as foreign currency assets less foreign currency liabilities and capital items.

24 These positions were within the prescribed range of +15 per cent/−25 per cent established by the Bank.

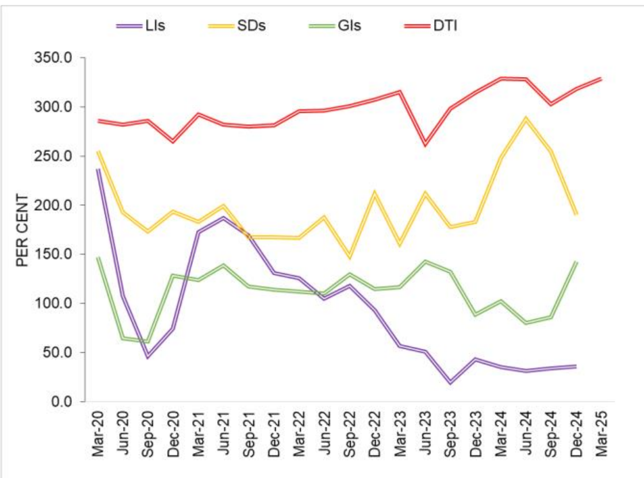
25 Calculation of the maturity metric for the system utilized data at end–March 2025 for DTIs, while for SDs Lis and GIs the metric used data at end–December 2024. It is calculated as the follows :

$$\frac{\text{Long term assets} - \text{long term liabilities} - \text{equity}}{\text{Total assets}}$$

26 Negative values for these institutions are typical and reflect the nature of their business models, where long–term liabilities and equity tend to exceed long–term assets. This structure is generally appropriate for insurance companies, given their predictable liability profiles and long–term investment strategies, and does not necessarily indicate elevated maturity risk.

Liquidity Risks

Chart 2.3 Liquidity Transformation – DTIs, securities dealers, life and general insurance companies



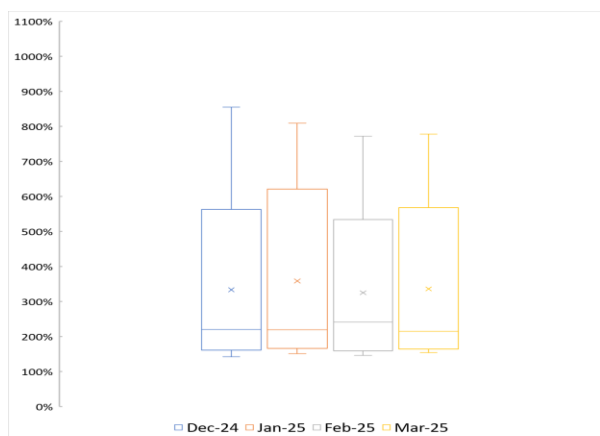
Source: Bank of Jamaica and Financial Services Commission

2.9 The liquidity transformation risk metric for the DTI sector (which measures the extent of coverage of short-term liabilities by liquid assets) deteriorated for the period ended-March 2025, relative to the December 2024 quarter. More specifically, the metric increased to 328.7 per cent from 318.2 per cent, indicating that short-term liabilities grew at a faster pace than liquid assets (see **Chart 2.3**).[27]

2.10 Regarding the non-bank sector, the liquidity transformation metric for SDs improved, largely reflecting an increase in liquid assets over short-term liabilities. On the other hand, the insurance sector recorded deteriorations in this metric for the December 2024 quarter. For life insurers, the outturn reflected that short-term liabilities grew at a faster pace than liquid assets, while the general insurance sector recorded a decline in liquid assets over the period.

2.11 The liquidity coverage ratio (LCR) demonstrated that DTI liquidity remained resilient to shocks.[28] All DTIs exceeded the LCR benchmark of 100.0 per cent for both Jamaican and U.S. dollar denominated LCR and the Jamaican dollar denominated LCR. (see **Charts 2.4** and **2.5**).[29] The LCR improved in the March 2025 quarter due to higher HQLAs and lower net cash outflows, compared to the December 2024 quarter.

Chart 2.4 Liquidity Coverage Ratio (JMD and USD Equivalent) at end-March 2025 – DTIs

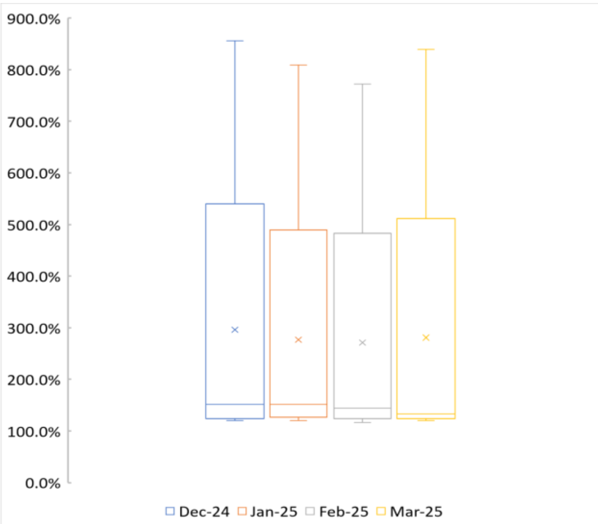


Source: Bank of Jamaica

[27] The liquidity transformation metric is calculated as the ratio of short-term liabilities to liquid assets.
[28] LCR is a requirement under Basel III whereby banks are required to hold an amount of high-quality liquid assets (HQLA) that's enough to fund cash outflows for 30 days.

[29] BOJ plans to implement a revised framework that proposes a prudential LCR minimum at 110%. Early warning thresholds will be set above the 110% minimum to encourage banks to build extra liquidity buffers.

Chart 2.5 Liquidity Coverage Ratio (JMD only) at end-March 2025 – DTIs



Source: Bank of Jamaica

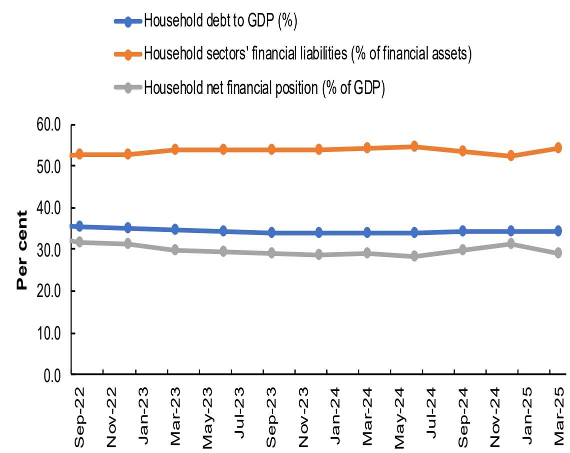
3.0 Sectoral Vulnerabilities

Household Sector

3.1 DTIs' loan portfolio continued to be dominated by household (HH) loans, albeit reflecting slower growth (y-o-y) at end-March 2025, compared to end-December 2024. HH loans accounted for 52.5 per cent of DTIs' total loans and 28.2 per cent of total assets at end-March 2025, remaining fairly stable compared to the previous quarter. In this context, households' debt-to-GDP ratio (an indicator of debt sustainability) fell (improved) marginally over the quarter (see **Chart 3.0 and 3.1**).

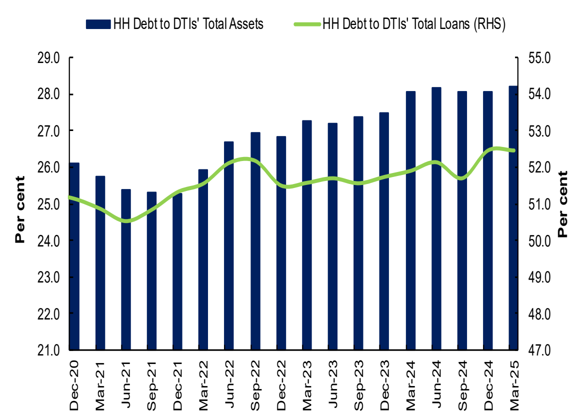
3.2 The quality of HH loans, as measured by the ratio of HH NPLs to total HH loans, remained relatively stable at 3.5 per cent for the March 2025 quarter, compared to the previous quarter. A disaggregation of the portfolio however shows that the mortgage PDL ratio continued to exceed that of consumer loans, with the latter remaining relatively elevated.

Chart 3.0 HH sector indebtedness indicators



Source: Bank of Jamaica

Chart 3.1 HH debt as a share of DTIs' loans & assets



Source: Bank of Jamaica

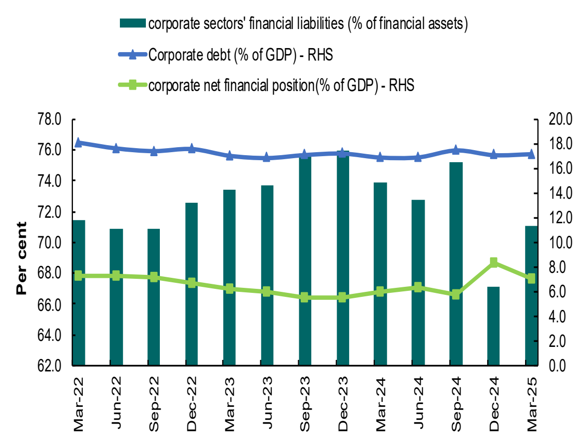
3.3 Notwithstanding, DTIs continued to maintain sufficient coverage of NPLs, as the sector's loan loss provisions to non-performing HH loans ratio remained above 100 per cent for the review period.[30]

Non-Financial Corporate Sector

3.4 The corporate sector's debt-to-GDP ratio rose slightly amidst an expansion of credit to the sector. Lending to the NFC sector remained a key component of DTIs' balance sheet. However, NFC sector loans remained relatively unchanged at 35.5 per cent of total loans over the same period of comparison (see **Chart 3.2**).

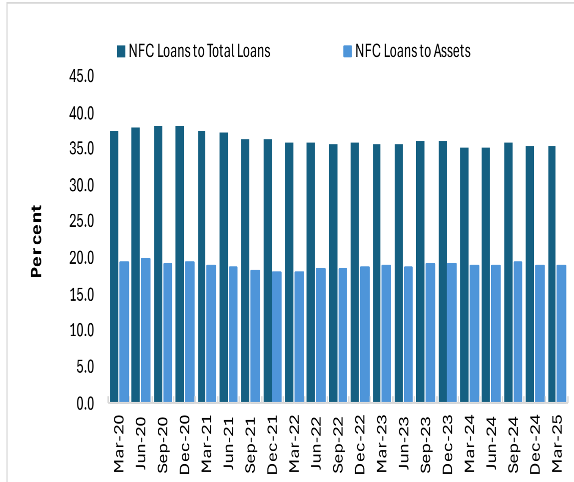
3.5 Furthermore, the sector's financial liabilities as a share of total assets grew by 3.9 percentage points to 71.0 per cent over the review period. Notwithstanding, the sector's net financial position relative to GDP declined, as liability and GDP growth outpaced the accumulation of assets (see **Chart 3.3**)

Chart 3.2 Corporate sector indebtedness indicators



Source: Bank of Jamaica

Chart 3.3 Real growth in corporate debt held by DTIs & corporate debt as a share of DTIs' assets and DTIs' loans



Source: Bank of Jamaica

Collateral Call Assessment: An Update

3.6 The market value of collateral calls from the Jamaica Central Securities Depository (JCSD) generally trended downwards since its peak value of J$6.3 billion on 17 June 2022.

3.7 Notably, the liquidity position of the sector, measured as the value of unencumbered assets reported by the securities dealers, has been more than sufficient to fund the collateral calls.

[30] DTIs continued to mitigate credit risks through more stringent underwriting practices, collateral sale auctions and increased communication with challenged customers.

4.0 Stress Tests

Background

4.1 Credit-related and market-based stress tests were performed to test financial institutions' resilience to various macro-financial shocks, which could arise as a result of a protracted global trade war.

4.2 Five single-factor stress tests, an aggregated stress test and a second-round contagion impact assessment were conducted. The single-factor stress tests included (i) increases in NPLs, (ii) a decline in equity prices, (iii) increases in bond yields, (iv) foreign currency depreciation, and (v) an increase in funding costs. Of note, two scenarios for each of the aforementioned tests were considered, a moderate and a severe to account for varying degrees of plausible outcomes.

4.3 A stress assessment was also done of the market risks (interest and equity risks) for the *Pensions* and *Life Insurance* industries.

4.4 The findings of the various assessments show that the DTIs, securities dealers, pensions and life insurance sector remained broadly resilient under the contemplated scenarios.

5.0 Macro Prudential Policy Summary

5.1 Given the current trade war, the trajectory for global and domestic macro-financial conditions remains uncertain. However, macro-financial conditions in Jamaica remained stable for the March 2025 quarter. Furthermore, financial entities remained adequately capitalized, liquid and profitable.

5.2 Notwithstanding current conditions and the overall macroeconomic environment, hypothetical stresses were conducted to assess the potential consequences on the domestic financial sector from emerging risks. The results of the macro-prudential stress tests showed that the financial system was broadly resilient to the contemplated shocks.

Appendix

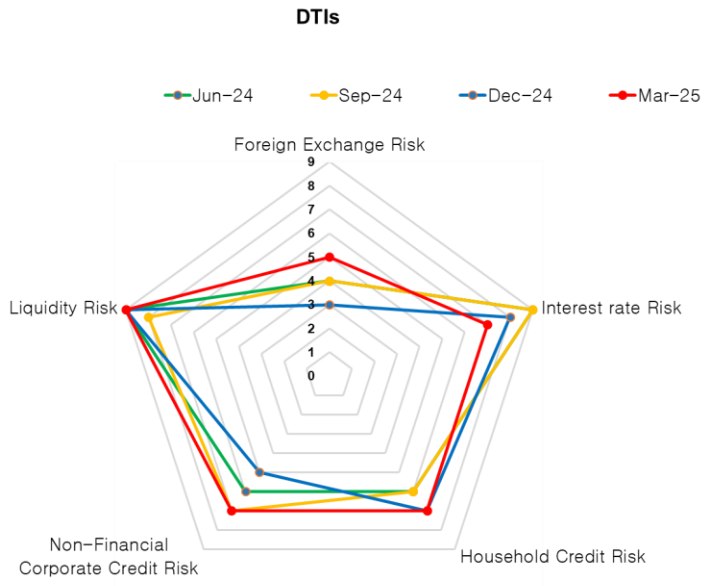
State of the Financial System

Table 1.0 Select Financial Soundness Indicators

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Asset to GDP (%)																					
DTI	87.4	92.9	100.6	102.9	106.9	105.4	104.4	105.6	108.9	101.4	94.2	93.8	94.4	94.7	89.5	89.3	88.6	88.9	89.4	90.5	90.0
SDs	27.9	30.8	33.5	35.2	36.2	35.6	35.7	35.7	27.1	33.6	32.5	31.8	31.6	32.3	29.7	29.5	29.9	29.7	30.6	30.2	n/a
LIs	16.6	17.7	18.1	18.7	19.1	18.3	18.0	18.3	22.6	16.4	15.7	15.4	14.7	14.5	14.2	14.5	14.5	14.6	14.8	15.1	n/a
GIs	4.2	4.8	4.8	4.7	4.6	5.1	4.9	4.7	4.7	4.8	4.6	4.3	3.5	4.1	3.4	3.3	3.1	3.2	3.4	3.3	n/a
Capital Adequacy (%)																					
DTI (CAR)	14.2	14.2	14.2	14.3	14.3	14.3	14.4	14.2	14.3	14.1	13.8	14.2	14.2	14.9	14.5	14.6	14.3	14.5	14.5	14.6	14.8
SDs (CAR)	18.6	21.2	22.4	22.3	21.8	19.8	21.6	21.4	21.4	22.3	19.9	21.9	21.0	21.2	20.5	20.8	20.0	20.0	20.1	20.2	n/a
LIs (MCSSR)	225.6	243.2	207.2	214.6	215.0	205.0	210.8	211.1	212.8	232.8	254.4	270.7	273.3	190.0	187.6	192.5	195.3	198.6	206.9	228.6	n/a
GIs (MCT)	251.3	223.1	263.1	281.1	266.4	277.4	276.7	281.9	276.3	268.9	296.7	304.5	221.1	200.4	196.1	212.0	220.6	218.1	221.6	246.9	n/a
ROA (%)																					
DTI	0.3	0.2	0.3	0.6	0.4	0.9	0.6	0.3	(0.0)	0.5	0.5	0.4	0.4	0.4	0.6	0.7	0.4	0.4	0.5	0.3	0.3
SDs	(0.1)	0.2	0.9	0.7	0.6	0.9	0.6	0.3	0.2	0.4	0.1	0.2	0.2	0.2	0.0	0.3	0.1	(0.0)	(0.5)	0.1	n/a
LIs	1.5	3.1	4.7	3.4	1.3	1.2	2.7	2.3	1.7	2.8	2.1	2.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GIs	0.0	0.5	0.6	0.7	0.4	0.6	0.4	0.5	(0.1)	(0.2)	0.3	0.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity (%)																					
DTIs Liquidity Coverage Ratio (LCR)		156.1	204.4	211.3	211.8	258.2	259.2	260.2	231.0	211.6	199.3	339.8	308.8	296.5	276.3	285.4	231.9	274.4	282.6	294.4	314.5
DTIs (liquid assets to short-term liabilities)	29.3	28.7	28.1	30.5	28.6	28.2	28.3	27.8	29.5	30.2	29.6	27.5	26.3	30.7	27.2	26.4	25.4	26.0	27.2	26.4	n/a
SDs (liquid assets to short-term liabilities)	16.8	16.2	15.6	14.6	20.2	18.8	21.1	18.2	17.3	16.4	16.9	16.5	17.0	16.6	17.7	n/a	n/a	n/a	n/a	n/a	n/a
LIs (liquid assets to total liabilities)	28.7	26.0	23.4	21.1	23.5	22.7	22.2	24.9	22.7	24.2	24.8	30.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GIs (liquid assets to total liabilities)	65.7	66.1	64.7	63.9	65.2	65.6	64.8	67.8	69.4	69.6	66.6	70.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-Performing Loans to Total Loans (%)																					
DTIs	2.4	2.9	2.7	2.8	2.9	2.9	3.0	2.9	2.8	2.7	2.5	2.5	2.4	2.5	2.5	2.5	2.3	2.4	2.4	2.5	2.5
SDs	3.2	2.6	2.5	2.4	2.6	2.5	1.4	0.8	0.6	0.9	0.7	0.7	0.9	1.0	1.1	0.9	1.3	1.7	1.6	1.5	n/a
Past Due Loans to Total Loans (%)																					
DTIs	3.5	3.6	4.9	3.0	3.4	3.7	3.0	2.6	3.0	2.7	3.0	3.0	2.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5

Source: Bank of Jamaica and Financial Services Commission

Chart 1.0 Evolution of risk exposure indicators[31]



Risk exposure indicators:
- Credit Risk - NPLs/Loans (SDs); NPLs (net)/ Capital
- Interest Rate Risk - Cumulative maturity gap < 30 days, < 90 days, < 360 days/Assets, DVBP/Capital
- Foreign Exchange Risk - NOP/Capital, FX liabilities/Total liabilities
- Liquidity Risk – Liquid assets/total assets, liquid assets to short-term liabilities

[31] The cobweb diagram is a graphical representation of financial stability. Each ray represents a key risk or condition. The centre band is the median ranking for each dimension and represents a normal level of risk. Movements away from the centre of the diagram represent an increase in financial stability risks. It is computed by: firstly, calculating weighted average of z-scores of each indicator in the dimensions. Secondly, converting the weighted standardized indicator indicators into empirical cumulative probability distributions. This is done by ordering the weighted z-scores for each dimension from lowest to highest. Finally, convert these cumulative probability scores into ordinal rankings on a scale of 1 – 9 based on the percentiles of the empirical cumulative probability distributions.

Chart 2 Network Metrics for the Interbank Gross Funding Network[32]

J$ Billions	Jun-24	Sep-24	Dec-24	Mar-25
Total System Funding to Exposure	401.3	407.9	399.2	485.6
Network Metrics				
Network Mean	0.9	0.9	0.9	1.1
Reciprocity[33] (%)	48.8	62.3	57.7	55.8
Density[34] (%)	27.5	29.9	30.7	31.8
Systemic Risk Score[35]	5.9	4.7	4.7	4.8
Fragility Score[36]	15.1	17.1	16.9	17.3
Diameter[37]	4	5	6	7

Source: Bank of Jamaica

[32] Network Metrics are based on interbank gross "funding to" data of domestic DTIs, securities dealers and foreign institutions.

[33] Reciprocity reflects the proportion of bi-directional funding relationships (Entity X both sends and receives funding from Entity Y and vice versa) that exist in the network.

[34] Density measures the proportion of actual funding relationships in the system against the total number of potential funding relationships in the network.

[35] The systemic risk score quantifies systemic risk in the financial system by combining each institution's contribution to interbank network risk for a specific period weighted by its overall ranking in the financial system. This score excludes foreign institution relationships.

[36] Fragility refers to how quickly the failure of any one institution would trigger failures across the network. The greater the degree of concentration in a few institutions the higher the fragility. Scores above 2 are considered fragile.

[37] Diameter indicates the "speed" of contagion, the more institutions on the diameter the slower the "speed" of contagion.