



JAMAICA-Recent Announcements By The BOJ

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The Bank of Jamaica (BOJ) monitors the performance of deposit taking institutions as a part of its mandate to maintain stability in the domestic financial system. One of the tools that the BOJ uses to achieve this is a requirement for financial institutions to maintain certain ratios which the central bank has the power to do by law. From time to time and as the economic fundamentals allow, the BOJ adjusts these requirements to send a signal to the market.

One such signal came recently when the central bank/BOJ announced that it would implement an increase in the cash reserve requirement ratio for foreign currency liabilities (foreign currency deposits) held at deposit taking institutions. The liquid asset ratio applicable to foreign currency prescribed liabilities will also be increased. The cash reserve requirement for local currency and the liquid asset ratio for local currency assets will both remain unchanged.

The recent announcement by the BOJ seems to have raised a few questions with some clients who are seeking clarity. In our view the increase in the liquid assets and reserve requirement ratios are aimed at reducing the incentive for local deposit taking institutions (Banks, Building Societies) to hold foreign currency deposits, primarily the US-dollar. The bias in the structure of reserve requirements which existed before has now been eliminated. Of note also is the fact that the remuneration for holding foreign currency cash reserves has been discontinued, bringing it into conformity with the treatment of Jamaica dollar cash reserves.

What the Central Bank has effectively done is to level the playing field in terms of the relative attractiveness of Jamaican dollar versus US-dollar liabilities/deposits. In fact, both the cash reserve requirement ratio and the liquid assets ratio for US-dollar liabilities is higher than the comparable ratios for Jamaica dollar liabilities. This effectively means that, in our opinion, the bias has been tilted towards or in favor of holding Jamaican-dollar liabilities. This should aid in controlling the relative demand for US-dollars and consequently also reduce the pace of devaluation of the Jamaican dollar versus the USD.

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The factors that affect devaluation, simply put, are both domestic (internal/endogenous) and from external (global or exogenous) factors. The BOJ, in our opinion, is ensuring that the domestic factors, that the Central Bank can control, are being adjusted to allow parity or balance.

Barring external/exogenous shocks (hurricane, US monetary policy, oil price shock etc.) the pace of devaluation for this financial year could be tempered compared to last year. If the pace of devaluation does in fact moderate then the relative attractiveness of Jamaican-dollar denominated assets should improve. Consequently clients/investors should sharpen their appetite, at least in the near to medium-term, for exposure to said local/J-dollar denominated assets.

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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