



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

JAMAICA

Systemic Risk Monitoring

November 2024

Prepared By

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**High-Level Summary Technical Assistance Report
Monetary and Capital Markets Department**

**Jamaica
Systemic Risk Monitoring
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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The technical assistance mission aimed to build capacity to enhance financial stability analyses and assessments in the Bank of Jamaica. It reviewed the latest available Financial Stability Report and the analytical toolkit. In particular, the mission helped the bank to estimate sectoral credit risk models to enhance the forward-looking element of its financial stability assessment. It provided several recommendations that covered the financial stability report, methodological work on the financial stability analytical toolkit, internal and external communication, and data sources and their management. It concluded that financial stability should be seen as equally important as monetary policy and supervision.

JEL Classification Numbers: G01; G21; G23; G30; H00
Keywords: financial stability; financial stability report; systemic risk; stress testing; credit risk modeling

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Background

The mission aimed to build up capacity to enhance financial stability analyses and assessments in the Bank of Jamaica (BOJ). It provided a workshop on key aspects of the financial stability agenda covering financial stability and macroprudential policy, financial stability indices, credit risk, stress testing, insurance & pension balance sheets and corresponding financial stability risks, essential elements of climate risk and interconnectedness, and contagion risk. In addition, the mission reviewed the latest financial stability report (FSR) and other provided relevant documents to identify existing gaps. Moreover, the mission also extensively discussed existing and potential new data sources to be utilized for purposes of financial stability. It further focused on data management in terms of the current practices as well as optimal solutions. In particular, the mission helped the BOJ to estimate sectoral credit risk models to enhance the forward-looking element of its financial stability assessment. The Financial Stability Department primarily received this TA.

Summary of Findings

The financial stability report is regularly published to communicate the key risks based on the financial stability analyses and assessments that have been conducted. The report has been published on an annual basis since 2015. It provides clear messages on key vulnerabilities, risks, and policy initiatives, containing a macro-financial narrative reflecting on the analytical work done in the bank. The scope of the analyses covers the macroeconomic environment, deposit-taking institutions, pension funds, collective investment schemes, securities dealers, and life and general (non-life) insurance companies. Overall, the work on financial stability is more advanced than in most other Caribbean authorities. However, improvements must be made to streamline the FSR and enhance the financial stability toolkit to be more forward-looking. Some additional synergies could be gained by enhancing internal processes and external communication. Finally, financial stability analyses and assessments could greatly benefit from improved in data management in the BOJ.

Summary of Recommendations

The mission provided several recommendations covering the FSR, analytical toolkit, internal processes, external communication, and data management. The FSR could be further streamlined and more forward-looking. In this respect, further enhancing the BOJ financial stability analytical toolkit is necessary to project important financial stability factors such as nonperforming loans, credit growth, and bank net interest rate revenue. The mission explained the Bayesian Model Averaging (BMA) technique as an appropriate methodology for short time series. The BOJ should become familiar with the provided R script for the sectoral credit risk models, work on improvements to the initial estimates, and implement a multi-factor, multiperiod solvency stress testing tool for deposit-taking institutions. In the context of the twin-peaks model of financial system regulation, it was recommended that non-bank analyses be improved and new emerging risks, especially climate and cyber risks, be regularly reported and assessed. In addition, the BOJ should organize all data in one data warehouse and fully utilize them to support the financial stability analytical toolkit. Finally, the BOJ should consider creating a centralized credit register as a rich data source for research.