



## NEWS RELEASE

### **Bank of Jamaica Accommodation to Central Government**

As part of its commitment to transparency, the Bank of Jamaica issues the following statement on recent extensions of credit to Central Government.

In its role as banker to the Government, the Bank facilitates Government operations by maintaining its deposit accounts and by acting as its agent in the issue, service and redemption of Government debt instruments. These activities have been at the core of the relationship between the Bank and the Treasury since the Bank began operations in 1961. The Bank is also empowered to make temporary advances to the Government as well as to acquire a limited quantum of securities.<sup>1</sup> This authority has been exercised from time to time over the years.

Most recently, during November and December 2009, the Bank extended credit to the Government by way of temporary advances as well as through participation in two primary issues of securities. As shown in the Bank's balance sheet of 09 December 2009 (published 23 December 2009), the amount advanced in November was \$5.1 billion of which \$2.5 billion was repaid in December. The remaining \$2.6 billion is being converted to securities. The Bank also purchased a total of \$18.0 billion from two Government public offers on 15 December 2009.

The extension of credit coincided with a period of heightened uncertainty among investors surrounding the terms of an IMF agreement and the potential impact of anticipated debt management initiatives. While the money market is very liquid, institutions have opted to hold a very large block of these funds at the Bank as overnight and short term deposits. In these circumstances, the Bank's participation in the public offers has taken on the nature of normal intermediation undertaken during a period of

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<sup>1</sup> Under Section 37 of the Bank of Jamaica Act, the Bank is permitted in any financial year to purchase or otherwise acquire, on a primary issue, securities issued or guaranteed by the Government of a nominal value of up to 40 per cent of the estimated expenditure of the Government in that financial year. Temporary advances are also permitted up to 30 per cent of aggregated revenue with the proviso that these must be repaid within three months of the end of the fiscal year in which such funds are advanced.

uncertainty on the part of market participants and is somewhat similar to the role that the Bank played in late 2008 when the inter-bank market became dysfunctional.

The Government expenditure that will be funded by the recent purchase of securities will again filter through the financial system and increase the liquid position of institutions. The Bank offers an open menu of instruments to institutions wishing to hold liquid positions. It is expected, however, that the outlook for the securities market will become very clear in early January and that institutions will then have a strong incentive to place their funds in longer term instruments. Some of this demand for instruments can be met from the Bank's holdings.

The context, indeed the chief objective, of the IMF programme is the consolidation of public finances setting the stage for lower deficits, a drastic slowing in the growth of debt and hence the deliberate easing of the pressure on interest rates occasioned by Government borrowing. In January, the key elements of a debt management programme are expected to be announced and formal agreement with the IMF and other stakeholders and supporters will follow. Any advances that may be necessary during the period of the debt management initiatives are expected to be repaid by the Government from funds raised.

The Bank's commitment to openness and transparency is institutionalized through the fortnightly publication of its balance sheet. By this means, the public is kept fully aware of the status of changes in credit extended, currency in circulation, the profit position as well as the level of foreign assets held by the Bank.

**Bank of Jamaica**  
**30 December 2009**