

Role and Functions of the Bank of Jamaica

by

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FOREWORD

The Bank of Jamaica has undertaken to publish a series of pamphlets on topics that are integral to the policies and operations of the Bank.

The pamphlets are designed to enhance the public's understanding of key central banking issues. In this regard the pamphlets will present important economic and financial information in a manner that will benefit a wide cross-section of users. In particular, it is anticipated that the material presented will assist journalists, investors, students and other members of the public who frequently request relevant documentation and/or explanations from officers of the Bank.

The Bank and its staff in continuing to serve the Jamaican public are pleased to add these pamphlets to existing publications as we strive to inform and educate.

We take this opportunity to extend our gratitude to all who have supported the process and would like to invite suggestions and comments from all our readers.

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Division Chief & Head of the Editing Committee
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PREFACE

Role and Functions of the Central Bank of Jamaica

The Central Bank of Jamaica, The BOJ, plays an important role in the Jamaican economy. As the institution that is directly responsible for the design and implementation of monetary policy, the Bank of Jamaica manages money and credit conditions with the objective of keeping inflation low and stable. In its role as regulator of the financial system, the Bank of Jamaica focuses on the promotion of the safety and soundness of financial institutions as well as an efficient and effective banking system. The functions of the Bank are explained in the context of the Bank's dual role as the monetary authority and supervisor of banks

Although, internationally, Central Banks share common features, there may be special characteristics as determined by the institutional arrangements within a particular economy. In the case of Bank of Jamaica, this pamphlet seeks to outline the organizational framework and management structure which support the role and functions while providing readers with a basic understanding of how the Central Bank in Jamaica operates in its current environment.

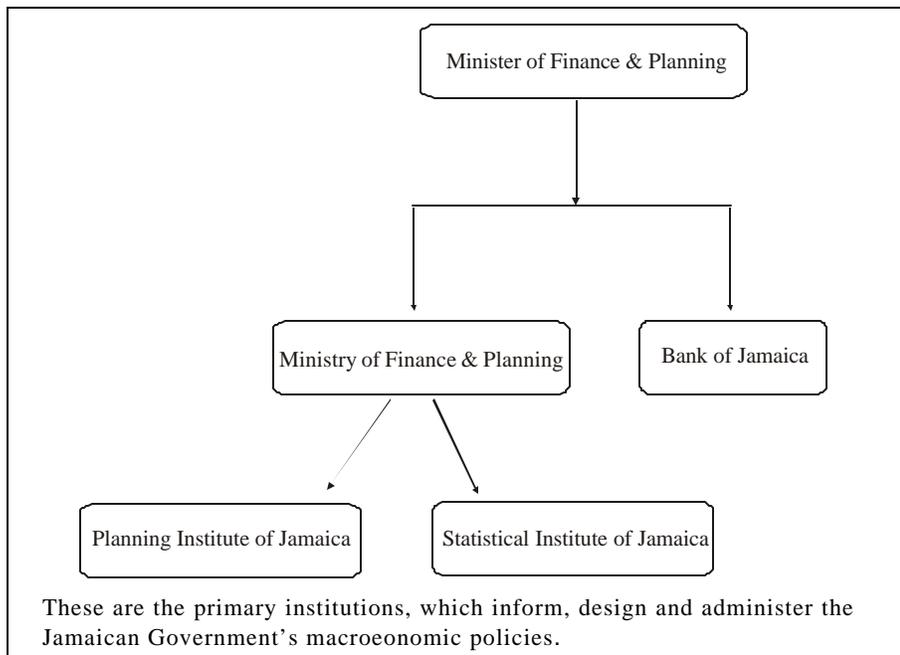
THE ROLE AND FUNCTIONS OF THE BANK OF JAMAICA

Introduction

The Central Bank, the Bank of Jamaica (BOJ) was established by the Bank of Jamaica Law, 1960. Consistent with many other countries, the BOJ falls within the portfolio of the Minister of Finance and is the monetary authority in Jamaica. The following diagram illustrates the Bank's location in the context of the public sector economic institutions.

Box 1

Relationship between the Bank of Jamaica and other public sector economic institutions



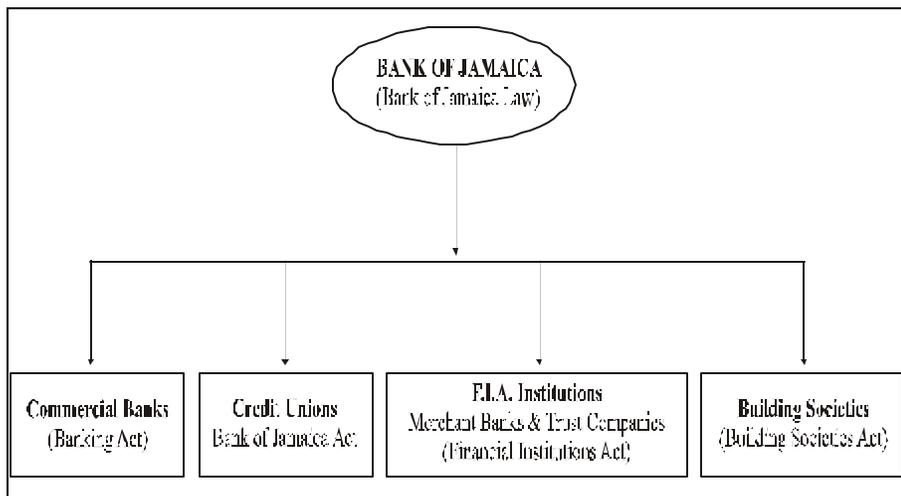
As a major participant in the administration of Jamaica's economic policy, the BOJ has responsibility for ensuring monetary and financial system stability. The two-fold nature of the Bank's operations is captured in its mission statement:

The mission of the Bank of Jamaica is to formulate and implement monetary and regulatory policies to safeguard the value of the domestic currency and to ensure the soundness and development of the financial system by being a strong and efficient organisation with highly motivated and professional employees working for the benefit of the people of Jamaica.

By virtue of its role and functions, the Central Bank is located at the helm of the financial system as illustrated in Box 2 below.

Box 2

Jamaica's Deposit-Taking Institutions



BOJ's Management Structure

The overall administration of the Bank is entrusted to a Board of Directors, which consists of the Governor as Chairman, the Senior Deputy Governor, the Financial Secretary and six other non-executive members, appointed by the Minister of Finance. The Governor and Deputy Governors are appointed by the Minister of Finance for a period not exceeding five years. The Governor, or in his absence, the Deputy Governor designated by him, is responsible for the daily management of the Bank's operations and is answerable to the Board for his administrative actions and decisions. Deputy Governors and a General Counsel who also serves as Bank Secretary, each supported by a team of managers, assist the Governor in the pursuit of the Banks' objectives.

As outlined in its mission statement, the operations of the BOJ are centred on the two primary objectives of monetary stability and financial system stability. Monetary stability is predicated on the implementation of sound and consistent monetary policies, while financial system stability is engendered by sound supervisory and regulatory policies. The Governor appoints and chairs (delegated where necessary) two committees comprising technical officers within the Bank to review and make recommendations for the formulation of monetary and regulatory policies. These two technical teams are the Economic Policy Committee (EPC) and the Committee of Bank Supervision (COBS), respectively.

Economic Policy Committee - Analysts meet once per week to review developments in the macro economy. The Committee which, in the absence of the Governor, is chaired by the Deputy Governor

responsible for monetary stability, formulates recommendations to the Governor regarding the direction of monetary and foreign exchange policy. Economic developments are further discussed with the Minister of Finance at a weekly inter-agency *Economic Programme Monitoring (EPM)* meeting. Bank of Jamaica's representation comprises the Governor, senior staff members from the Research and Economic Programming Division, Banking and Market Operations Division and the Deputy Governor and Division Chief of the Financial Institutions Supervisory Division. The Ministry of Finance is represented by staff from the Minister's Office and the Fiscal Policy Management Unit. The Statistical Institute of Jamaica (STATIN) is represented by its Director General, and the Planning Institute of Jamaica (PIOJ) by its Director General, and the director of the Economic Planning and Research Division. This meeting is co-chaired by the Governor and the Minister of Finance.

Committee of Bank Supervisors -The Governor meets once per week with the Deputy Governor responsible for financial stability and senior staff members in the Financial Institutions Supervisory Division to review issues pertaining to financial intermediation and makes recommendations to the Minister of Finance. The Deputy Governor with responsibility for monetary stability also attends this meeting.

Functions of the Bank of Jamaica

The Bank of Jamaica Act states the objectives of the Bank as follows:

- . to issue and redeem notes and coins;
- . to act as banker to the Government;
- .. to act as banker to commercial banks;
- . to keep and administer the external reserves of Jamaica;

- . to formulate exchange rate policies;
- . to act as advisor on the formulation and implementation of economic policies;
- . to influence the volume and conditions of supply of credit so as to promote the fullest expansion in production, trade and employment, consistent with the maintenance of monetary stability in Jamaica and the external value of the currency;
- . to foster the development of money and capital markets in Jamaica; and
- . to supervise commercial banks, other deposit-taking institutions including merchant banks, finance houses, trust companies, credit unions and building societies to ensure the soundness of their financial position and protection of depositors.

1. Issuance and Redemption of notes and coins

The Bank of Jamaica issues and redeems bank notes and coins, in order to meet the public's demand for cash. The BOJ is the sole issuer of the country's legal tender - the Jamaica dollar.

2. The BOJ as banker to the Government

As banker to the Government, the Bank:

- . administers some of the Government's main deposit accounts;
- . services the Government's external public debts; and
- . acts as agent for the Government.

This involves the maintenance of accounts of the Central Government and the subsidiary accounts of some public sector agencies. As an agent of the Government, the Bank conducts the settlement of GOJ securities and also operates an auction for certain GOJ securities.

3. Banker to Commercial Banks

As banker to commercial banks the BOJ exercises oversight responsibilities for a clearing system, which provides for the clearance and settlement of transactions between banks. The Bank also influences the level of liquidity in the financial system by varying the percentage of prescribed liabilities that commercial banks must maintain at the Bank as a minimum cash reserve. The Bank also supplies liquidity to the system in the event of a general shortage of funds.

4. Reserve Management

The Bank is responsible for the management of the country's foreign exchange reserve. These reserves are held for the purpose of cushioning the effects of adverse demand or supply shocks. The reserves are held primarily in United States (US) dollars, as it is the currency to which the Jamaica dollar is aligned.

5. Formulation of exchange rate policy¹

Jamaica's exchange rate policy is aimed at ensuring relative stability in the external value of the local currency. In pursuit of this objective, the Bank adopts a three-fold approach to the management of the foreign exchange market. It:

- monitors and undertakes market surveillance;
- collects data and disseminates information on market activities; and
- acts as participant in the market as a means of creating orderly conditions.

¹ For a comprehensive overview of the foreign exchange market, see "How the Foreign Exchange Market Works," Bank of Jamaica Pamphlet Series (2000) No. 5.

6. The Bank as economic and financial advisor

The Governor advises the Minister of Finance on macroeconomic and financial matters. In fulfilling this function, the Bank maintains an extensive economic database and conducts research on areas relevant to economic policy. The BOJ also issues press releases, hosts press conferences and publishes numerous research material prepared by members of staff². This is in keeping with its commitment to transparency and broader public awareness.

7. Implementation of Monetary Policy

Monetary policy refers to the actions taken by a Central Bank to affect financial conditions in the economy, in pursuit of the broader objectives of low price inflation, sustainable growth in real output and high employment - the latter two perceived as derivatives of maintaining low inflation. The formulation and implementation of monetary policy involves:

- . managing changes in money supply;
- . influencing interest rates;
- . influencing the level of credit in the banking system and
- . fostering the development of money and capital markets;

Monetary Policy Tools³

Monetary policy tools are designed to influence the level of liquidity in the financial system. These are classified as indirect or direct

² Among the material available on the internet and in hard copy are the Monthly Statistical Reports, the Monthly Inflation and Balance of Payments Reports, the Quarterly Monetary Policy Report and the BOJ pamphlet and research paper series.

³ The BOJ Pamphlet "Monetary Policy Management in Jamaica", provides a comprehensive outline of the conduct of its open market activities and other monetary policy tools, for example reserve requirements.

instruments. The Bank of Jamaica uses the following monetary policy tools:

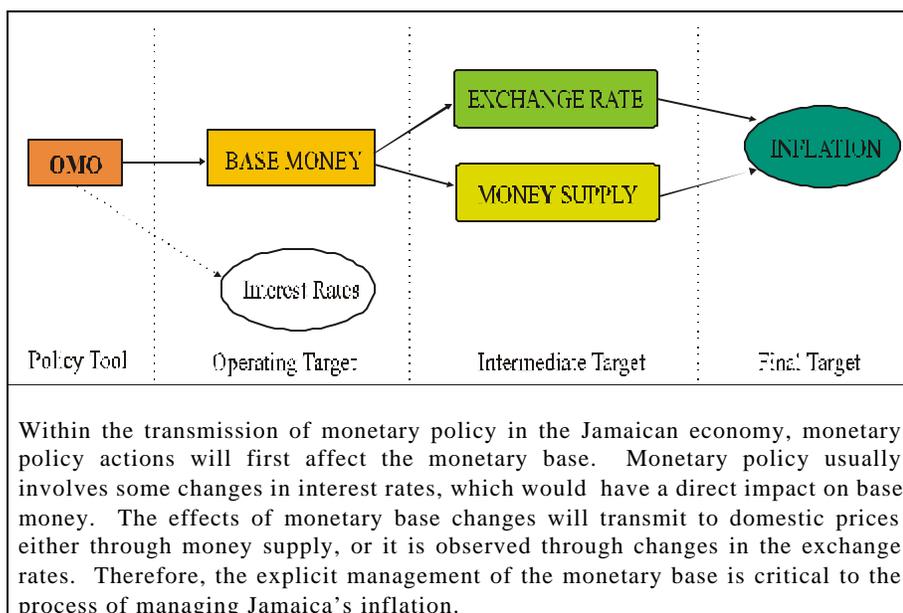
Indirect Policy Tool: Open market operations (OMOs)

Direct Policy Tool: Reserve requirements

Open market operations (OMO) describe the purchase and sale of financial instruments. The financial instruments used in the conduct of OMO are GOJ securities such as Treasury Bills and Local Registered Stock (LRS), which can be bought or sold outright. Another instrument takes the form of *reverse repurchase agreements*, usually with maturities of up to one year. The Central Bank also issues its own securities called Certificates of Deposit. The diagram in Box 3 depicts the transmission process through which open market activities are effected.

Box 3

Schematic Flow of the transmission of monetary policy in Jamaica



Reserve requirements are the portion of deposit liabilities that deposit-taking institutions have to keep on hand, or hold at the Bank of Jamaica. In addition to the prudential considerations, the aim of reserve requirements is to control the amount of credit that a financial institution can extend. The reserve ratio includes a cash component and a non-cash component. The cash reserve requirement stipulates that a certain proportion of the deposits of the institution are held on deposit at the Central Bank. The non-cash portion of the requirement stipulates that a percentage of the deposit liabilities should be held as risk-free *liquid assets* in the form of Government of Jamaica securities of maturities of up to one year.

8. Bank as regulator and supervisor of the financial system⁴

Pursuant to several amendments to the Bank of Jamaica Act, the Bank has supervisory responsibility for deposit-taking institutions, namely, commercial banks, merchant banks, trust companies, finance houses, building societies and credit unions. This responsibility involve continuously assessing the quality of licensees' financial condition and operations and ensuring that each licensee possesses appropriate technical, financial and personnel resources to ensure efficient, prudent, sound and profitable operations. Box 4 provides an illustration of the regulatory and supervisory arm of the Bank of Jamaica.

Affiliated International Institutions

As the institution at the apex of Jamaica's financial system and also in its capacity as the Governments fiscal agent, the activities of the

⁴For an indepth explanation of the regulatory function of the BOJ, see “The Central Bank’s Role as Regulator” Bank of Jamaica Pamphlet Series (2000) No. 6.

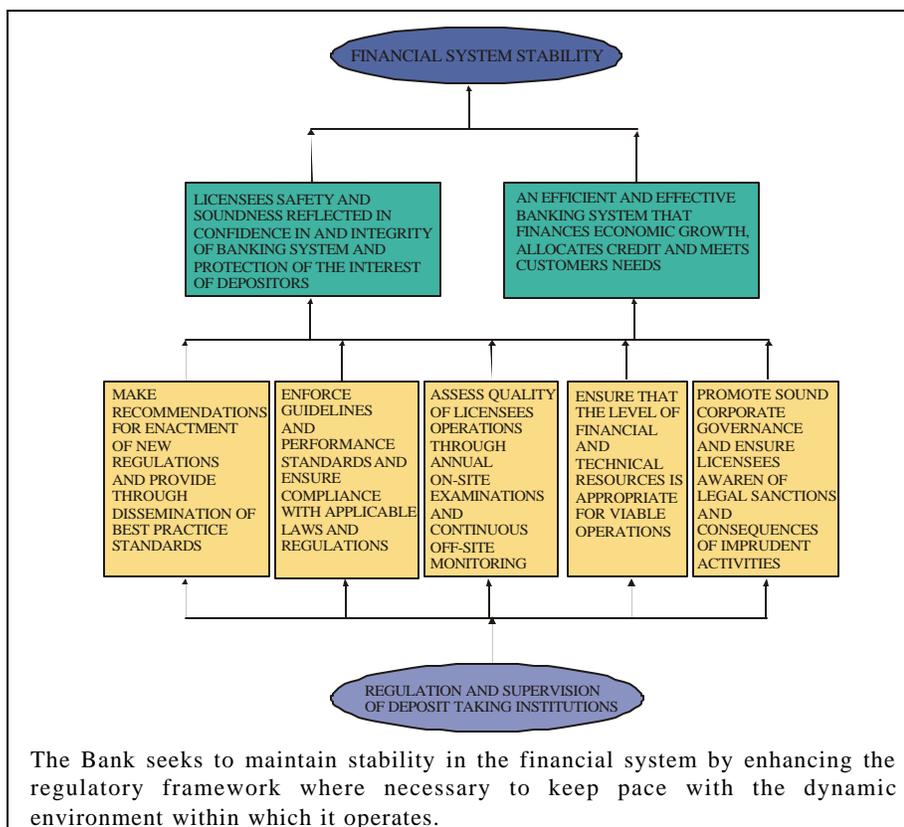
Bank are closely associated with those of a number of international financial institutions. These included:

- . the International Monetary Fund (IMF);
- . the Inter-American Development Bank (IDB);
- . the Bank for Reconstruction and Development (IBRD), more commonly known as the World Bank; and
- . the Caribbean Development Bank (CDB).

The Bank is also an associate member of the Bank for International Settlements (BIS).

Box 4

The Supervision and Regulatory Arm of the BOJ



GLOSSARY OF FREQUENTLY USED TERMS

Central Bank: The institution responsible for regulating the banking system and the supply of money and credit to help promote the public goals of economic growth and high employment with a minimum of inflation.

Government Securities: These are instruments issued by the Ministry of Finance usually to bridge the gap between revenue and expenditure. These include short-term instruments such as Treasury Bills and more long term ones like Local Registered Stocks, or Debentures.

Liquid Asset: An asset in the form of money or one that can be easily converted into money. The liquid assets of a commercial bank include notes and coins, and any designated GOJ security.

Financial System Stability: The maintenance of an efficient network of financial institutions, which individually and collectively operate as safe and sound intermediaries with adequate protection for depositors.

Monetary Stability: Entails the preservation of the purchasing power of the domestic currency by maintaining low and stable domestic inflation and a stable exchange rate.

Primary Dealer (PD): The set of intermediaries through which BOJ conduct open market purchases or sales. PDs undertake the underwriting and marketing of primary government issues as well as participate in block transactions with the Central Bank.

Reverse Repurchase Agreements: Where the Central Bank sells a security that it owns and agrees to buy back same at an agreed price at an agreed future date.

PAMPHLETS IN THE SERIES

<i>No.</i>	<i>Title</i>	<i>Author</i>
1	Monetary Policy Management in Jamaica	Claney Lattie
2	Your Guide to the Jamaican Consumer Price Index	Robert Stennett
3	The Measurement of Money Supply	Michelle Hylton
4	Essential Facts about Inflation	Kevin Harriott
5	How the Foreign Exchange Market Works	Helen McIntosh
6	The Central Bank's Role as Regulator	Noel Shippey Courtney Christie-Veitch
7	Role And Functions Of The Bank of Jamaica	Michelle Hylton
8	Balance Of Payments Made Simple	Fedrica Robinson