

27 June 2017

## **BOJ Transitions to Overnight Policy Interest Rate: Strengthening Monetary Policy Transmission**

Bank of Jamaica announces that, effective 01 July 2017, its policy rate will be the interest rate that it pays on overnight deposits held by deposit-taking institutions (“DTIs”) at Bank of Jamaica. This rate is currently 3.75 per cent per annum. The policy (or ‘signal’) rate is the designation given to the interest rate that signals BOJ’s monetary policy stance.

With this change, the interest rate that BOJ pays on its 30-day certificates of deposit will no longer be designated as the policy rate. Bank of Jamaica will continue to offer 30-day certificates of deposit to primary dealers and DTIs but, effective 28 July 2017, they will be issued in fixed volumes by competitive multiple-price auctions.

The Bank is making this change to the monetary policy framework in order to strengthen the relationship between the policy rate and market interest rates which, in turn, influence the spending and saving decisions made by businesses and consumers.

By this means, the Bank is able to influence the rate of inflation in pursuit of the inflation target.

This change is the most recent step in a series of improvements that the Bank has been making to the monetary policy framework since 2014<sup>i</sup>. To date, these changes have included operational changes to streamline the maturities of sterilization instruments, the institutionalization of liquidity assurance to DTIs, the extension of emergency liquidity arrangements to securities dealers and the introduction of an interest rate corridor (“IRC”). The IRC, which is defined by the Bank’s overnight deposit rate (currently, 3.75 per cent per annum) as the floor and its overnight lending rate (currently, 6.75 per cent per annum) as the ceiling, has provided a clearer guide for short-term market interest rates.

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<sup>i</sup> See Bank of Jamaica, 2004. “Changes to the Liquidity Management Framework for Deposit-taking Institutions and Developments in the Money Market”; **Quarterly Monetary Policy Report; July –September 2014** (pp 27-30) and Bank of Jamaica Press Notice 31 August 2016.