

**Number: 4/6002**  
**Date: 8 Rajab 1433 Hijri**  
**Corresponding to 29 May 2012**

**Memorandum to all Licensed Banks**

**No (29/ 2012)**

**Subject: Updating the Current Operational Framework of the Monetary Policy**

For the purpose of increasing the efficiency and competence of managing the monetary policy, and in line with the Central Bank of Jordan's endeavor to expand its instruments' base that aims at achieving its operational goals which entail influencing the levels of surplus banks reserves and; thereby, directing the inter- bank lending interest rate towards its targeted overnight rate, and in line with the Central Bank's endeavor to regularly review and evaluate its instruments in order to keep up with the best global practices of central banks, and for the purpose of providing more flexibility to banks in managing their liquidity; the Committee of the Open Market Operations has thereby decided to make the following amendments on the operational framework of the monetary policy:

**First: The Corridor System**

The Central Bank will continue to implement the Corridor System as part of its operational framework of the monetary policy to direct short- term inter-bank lending interest rates towards its targeted level, and as follows:

- 1- The currently in effect Corridor System entails setting two rates which represent the overnight standing facilities performed by the Central Bank at banks' discretion, with the overnight deposit window rate representing the floor of the system whereas the overnight repurchase agreement interest rate represents the ceiling of the system.
- 2- The Central Bank will continue to provide banks with their needs of liquidity for one night upon their request through repurchase agreements at the declared repurchase interest rate currently set at 4.75% annually. It will also continue to accept licensed banks' deposits in the overnight deposit window in the Jordanian Dinar at the declared deposit window interest rate that is currently set at 2.75% annually.
- 3- The Central Bank will target the overnight inter- bank lending interest rate at a certain level within the Corridor System, through directing the prevailing inter-bank lending interest rate towards this level. To that end, the Central Bank will resort to open market operations demonstrated in Item (Second) below.

## **Second:- Temporary Open Market Operations:**

The Operational Framework of the Monetary Policy aims at strengthening the role of temporary open market operations as one of the primary instruments of indirect monetary policy in a way that enables the Central Bank to influence the size of surplus reserves and target the inter- bank lending interest rate within the Corridor System as well as to target the prevailing interest rates in the monetary market. We demonstrate below the instruments used in temporary open market operations:

### **A- Repurchase Agreements (Repos) and Reverse- Repurchase Agreements:**

#### **The general framework governing this instrument is as follows:**

- 1- The Central Bank will use Repurchase Agreements (Repos) and Reverse-Repurchase Agreements to inject and withdraw liquidity with the purpose of providing indicators regarding the monetary policy by influencing the volume of surplus reserves and directing the inter- bank interest rate towards its targeted level.
- 2- The repurchase agreements are put- up weekly or whenever the market's circumstances necessitate so. They will also be put- up for one week term or different terms at the Central Bank's discretion.
- 3- The repurchase agreements and reverse- repurchase agreements are performed according to this instrument with a fixed (quantitative) interest rate auction.
- 4- Upon announcing the auction, the Central Bank will inform banks of the interest rates and liquidity ceiling to be injected or withdrawn through the Reuters Monitor and the Central Bank's website or through any other adequate mean that guarantees delivering the information to all banks.
- 5- These agreements are performed according to the principle of Delivery- Versus- Payment. Government securities, securities guaranteed by the government, and any other securities announced by the Central Bank are considered acceptable instruments for the purposes of conducting repurchase agreements and reverse- repurchase agreements
- 6- If the value of submitted bids exceed that of the put- up value, the Central Bank will allocate a value for each bank participating in the auction.
- 7- The repurchase operations performed within this framework shall abide to the Master Repurchase Agreement signed between the Central Bank of Jordan and licensed banks.
- 8- Interests on the repurchase agreement and reverse- repurchase agreement shall be calculated on the basis of the number of the actual days, and the year shall be considered (365) days for that purpose.
- 9- The Central Bank may reject any of the offers or decrease the presented ceiling or increase it or cancel the whole auction without the need to state reasons. The Central bank may also not hold the auction if the market's circumstances necessitate so.

- 10- The repurchase agreements due in one night remain valid and available to banks upon their requests since they are deemed ongoing credit facilities performed at the licensed bank's request itself (not at the Central Bank's discretion). We hereby stress that the interest rate declared by the Central Bank on these types of agreements (set currently at 4.75% annually) remains valid as it is the ceiling limit of the Corridor System.
- 11- As a natural outcome of the mechanism of implementing temporary open market operations through repurchase agreements and reverse- repurchase agreements, the interest rate on this instrument will be lower than the interest rate on the repurchase agreements instrument referred to in Item (10) above considering it as the ceiling of the Corridor System.

**B- Certificates of Deposits Auctions:**

Pursuant to our previous memorandums circulated to all licensed banks, the certificates of deposits issued by the Central Bank in the Jordanian Dinar within the framework of the open market operations shall remain one of the main instruments of the monetary policy that can be used to withdraw surplus liquidity if circumstances necessitate so. Moreover, they can be issued with different terms that range from one week to one year, which would solidify the Central Bank's ability to manage the monetary policy and, on the other hand, help banks manage their liquidity. Banks may also use them in repurchase agreements conducted with the Central Bank.

**C- The Currency Swaps:**

Licensed banks may at their discretion employ the present instrument which entails foreign currencies swaps through applying to the Central Bank to perform such agreements according to the valid instructions on that regard.

**Third: - Enhancing the Central Bank's Portfolio of Government Securities and Securities Guaranteed by the Government for the Purposes of the Monetary Policy.**

The Central Bank will in the future enhance its portfolio of government securities and securities guaranteed by the government according to specified conditions and rules set to that end in order to influence the level of domestic liquidity and direct the current interest rates in the market.

**This memorandum is valid as of date. It supersedes any previous contradictory instructions.**

**Governor  
Dr. Ziad Fariz**