

### **3.7 Deputy T.A. Vallois of St. Saviour of the Minister for Treasury and Resources regarding the draft Currency Notes (Variation of Maximum Amount of Issue) (Jersey) Regulations 200-**

In the light of the draft Currency Notes (Variation of Maximum Amount of Issue) (Jersey) Regulations 200- (P.152/2009) lodged by the Minister seeking an increase in the maximum limit for currency in Jersey to £100 million, could he advise what tests of supply and demand, if any, have been carried out for this decision and whether the potential for this to create further information upon recovery from the economic downturn has been considered?

#### **Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

I welcome the opportunity of explaining what is quite an important decision. It is an administrative rather than economic and fiscal decision. The amount of Jersey notes in circulation is currently approximately £70 million and it remains at about £70 million throughout the year. Circulation peaks in the Christmas period as more people tend to use cash. The Treasury therefore have recommended to me that we increase the maximum amount in circulation to £100 million in order to meet this seasonal demand and also to plan for the next 2 or 3 years of inflation. The Treasury monitors the amount of money in circulation on a weekly basis. The increase to the maximum amount simply enables the Treasury to respond to the requirements of banks when the public demands more cash in circulation. So I am happy to confirm that the Treasury is not printing more money in the traditional quantitative easing sense. The number of notes in circulation is governed entirely by demands of the retail banks which, in turn, is driven by customer demand. This is a very different situation to the quantitative easing initiatives seen in the U.K.

#### **3.7.1 Deputy T.A. Vallois:**

I was wondering if the Minister for Treasury and Resources could just explain further on the demand by the banks and the customer demand and explain the difference in how that substantiates the increase.

#### **Senator P.F.C. Ozouf:**

What effectively happens is the Treasury responds to the daily demands of banks that are requiring an amount of money to hold in their tills and it is not anything like the sort of traditional printing money or even the modern, electronic quantitative easing measures. It is simply an administrative process in that the Treasury is responding to banks in terms of their note requirements. The situation is different in Jersey because every piece of paper is backed by a pound on a deposit account which is held in a separate reserve in the States Treasury and, therefore, it is very different from any government that would be trying to pay for public sector workers by simply printing more money and therefore it does not have the inflationary effect.

#### **3.7.2 Deputy M.R. Higgins:**

Following through on this, one can understand the argument for increasing the money supply at Christmas. That is standard practice for most governments but they also claw back that money after the Christmas period. Leaving the money in circulation could have an inflationary consequence, especially as no extra goods are being produced; it is just there is more money out there. If people realise there is more money out there, prices will go up and one of the effects will be to add to the inflation. So why is the Minister not clawing the money back after the Christmas period?

**Senator P.F.C. Ozouf:**

I think I need to take Deputy Higgins on a quick economics lesson, if he wants one, but this is nothing to do with economics. This is simply an administrative issue and if the Treasury of the States of Jersey would not provide the banks with sufficient pieces of paper and notes in order to deal with their demand, then they will effectively call on English notes. As I have explained to the Assembly before, it is Jersey's economic interest to use Jersey notes as we effectively get that pound of deposit for every pound in circulation and we earn interest on it. Interest rates are low at the moment, but in a high interest rates time with about £100 million, Members can work out the figure for themselves. This is an administrative issue. It is nothing to do with economics.

**3.7.3 Deputy M.R. Higgins:**

A supplementary, Sir? It is interesting that the Minister says that it is an administrative matter but he has also mentioned the economic benefits of doing it. He has mentioned, for example, that the banks could use English notes instead but, by taking Jersey notes, they are adding to money that the States has. So, therefore, it has got an economic benefit. It is not just admin.

**Senator P.F.C. Ozouf:**

It is a business benefit to put more money into circulation. It is in the financial interests of the States of Jersey and the people of Jersey to use Jersey notes as opposed to English notes. This is nothing to do with economics, if I may respectfully say, and with the total economy of Jersey at about £4 billion and £100 million is about 2.5 per cent, I am afraid this has got nothing to do with macro or micro economic policy; it is just commonsense administrative decisions.

**3.7.4 Deputy J.M. Maçon of St. Saviour:**

If we are talking about an administrative function, can the Minister explain why £30 million has been the figure arrived at of this increase when he stated there is about £70 million around? I am very interested in this big jump.

**Senator P.F.C. Ozouf:**

Let me be clear, the maximum authorised limit in circulation notes at the moment is £70 million. We are seeking to achieve an increase in the maximum in note circulation of £30 million because that £70 million peak has been breached on a couple of occasions, most notably in 2008. In theory, there has been an increase of notes in circulation over the permitted limit of £70 million and, therefore, I am asking the Assembly to increase the maximum note increases. The Treasury do not want to be in a position that they cannot issue notes when there is that maximum increase in place.

**3.7.5 Senator S.C. Ferguson:**

Would the Minister like to confirm that the cash benefit arises because of the complete transferability between U.K. notes and Jersey notes and it is in our benefit to accept the Jersey notes, put them on deposit, issue our own notes and earn interest on them?

**Senator P.F.C. Ozouf:**

I completely agree with the Senator. That is exactly the reason why and there are other note issuing authorities in the United Kingdom. I think Clydesdale Bank, Bank

of Scotland and the Royal Bank of Scotland all do this because there is a benefit on issuing pieces of paper and having a cash deposit. Jersey is no different.

### **3.7.6 Deputy D.J. De Sousa:**

The Minister mentioned in his answer to Deputy Maçon that, in 2008, the level of circulation was breached. Can he tell the House by how much?

### **Senator P.F.C. Ozouf:**

I think that the amount in circulation demanded increased around the 2008 Christmas period and I think that there was something like a 23 per cent increase in circulation within a fortnight over the Christmas period. The Treasury do not know the reason why that was. It may have been that this coincided with a reduction in the public confidence in terms of banks and financial institutions. It may well be that Islanders were putting lots of £50 notes in for people's Christmas presents but, effectively, the notes I have here technically increased I think from £69 million to £85 million, an increase of 17 per cent, but then fell very quickly down to £12 million 2 weeks afterwards.

### **3.7.7 Deputy D.J. De Sousa:**

A supplementary please, Sir? Bearing in mind the Minister's answer, it was a different economic climate at the time. We are now enforcing pay freezes. Does he really think that there will be that extra demand at Christmas this year?

### **Senator P.F.C. Ozouf:**

I suspect that there will be an increase in demand. Every year in the last 3 years, there has been a very bold increase in the demand for notes around the Christmas period. I think that is a perfectly logical explanation in relation to all of our activities in relation to the use of notes over the issue of credit cards in giving presents, et cetera, and just more money circulating in retail environments. Certainly, I am very much hoping that the new family of notes which will be in circulation next February and March will certainly spark public interest and, in setting the £100 million limit, I certainly do not want to have to return to the Assembly every 6 months or every year in order to increase the amount of limit. It is simply an administrative issue but it is important that the administrative instrument is well-understood.

### **3.7.8 Deputy T.A. Vallois:**

The Minister mentioned commonsense in one of his answers. Then why has it taken 12 years for this to come to the House to amend if it is just an administrative matter and especially due to the 23 per cent increase in demand in the circulation of notes last year, seeing as Christmas comes around every year, that is 12 Christmases, then why is it not being looked at, say, every 3 or 4 years?

### **Senator P.F.C. Ozouf:**

The Deputy raises a good question. I do not know the answer to that. All I know is that there is going to be a Christmas peak this year and I want to ensure that the maximum currency in circulation is within the regulations that are provided, hence I have lodged the regulations for debate prior to this year's Christmas. I would point out that for the vast majority of the weeks of the year the limit of currency in circulation is well within the limits that were previously agreed.