

Circular No: 35/01/005/0006/11

Domestic Operations Department

26 December 2006

To: All Licensed Commercial Banks.

Reverse Repurchase Facility

The Reverse Repurchase Facility (RRF) of the Central Bank is available to the commercial banks to address their urgent liquidity issues and is designed to be accessed as a last resort.

However, certain banks have resorted to the use of the RRF as a regular source of funding.

The ill effects of regular borrowings from RRF of the Central Bank were explained to banks individually and collectively over the past six months by the Central Bank and the banks were requested to arrange alternative sources of funding, without relying on the RRF regularly.

It is also noted that when the commercial banking system has a liquidity surplus, there will be no necessity for any licensed commercial bank which has a liquidity shortage to resort to the RRF of the Central Bank since such a shortage could be met out of the overall surplus in the system.

Hence, with effect from 1 January 2007, the RRF of the Central Bank will not be available on days when there is a liquidity surplus in the commercial banking system, as per the Central Bank estimates. The days when the RRF is not made available on such grounds, will be notified through the online Money Market Information System/ Electronic Bidding System on that day at 9.30 a.m.

Actg. Director
Domestic Operations Department