

MECHANISMS OF BNR SHORT-TERM INTERVENTIONS ON THE MONEY MARKET

Having noticed liquidity conditions enhancement with the beginning of May 2009, BNR returned to the Money Market by absorbing excess liquidity through REPOS operations.

In the framework of the money market fostering, BNR intends to introduce new mechanisms on the Money Market concerning REPO and Deposit facility introduced in August 2008 and December 2008 respectively.

1. Deposit facility

Reference to the existing interbank corridor, BNR announces that the interest rate of Deposit facility of 28 days is changed from 7% to 8%. With Deposit facility, BNR provides an instrument to Commercial Banks with excess liquidity for investing in longer tenors and, this will enable BNR to sterilize excess liquidity for longer periods. This facility is permanent and is not subjected to auction processes. A discount option is allowed, however a penalty charge of 15 basis points is applied for each day not upheld.

2. REPO operations

In order to give more flexibility to Commercial Banks with very shorter run excess liquidity to access on Central Bank's facilities, BNR decides the extension of the REPO duration. From now, REPO duration is varying between 1 to 28 days.

BNR introduces also a premium concept on repo interest rate of 15 basis points per day in order to take into account the time value of money idea and encourages Commercial Banks to invest in longer tenor opportunities, and thus, building a consistent yield curve. In addition, this practice will consider the conditions prevailing on the Money Market.

3. Illustration of premium mechanism

Suppose that BNR receives bids of Repo totalling Rwf 18.5 billion in the following details.

Banks	Facility	Amount (in million Rwf)	Tenor (in days)	Interest rate
A	Repo	2,000	1	5.90
B	Repo	3,500	1	6.00
C	Repo	2,500	1	6.10
D	Repo	2,500	3	6.10
E	Repo	2,000	2	6.00
F	Repo	2,000	5	6.35
G	Repo	2,500	2	6.05
H	Repo	1,500	3	6.35

Considering the new practice aiming at encouraging longer tenor investments and taking into account time-value of money, the auction will be conducted as follows:

- The first step is to analyze the Repo duration and interest rates proposed on the Repo Market. The lowest interest rate offered is 5.90 for 1 day-tenor. By adding a premium of 15 basis points per day, the interest rates would look like as shown by the table below.

Tenor (in days)	1 day	2 days	3 days	4 days	5 days
Interest rate (with premium)	5.90	6.05	6.20	6.35	6.50

- Secondly, it is calculated the difference between the interest rates offered and the scale above. This difference will help to allocate the bids. The bid with the lowest spread is the interesting one to BNR. In case of the same difference but with different tenors, the bid with long tenor is privileged.

Tenor (in days)	Interest rates		Difference (a)-(b)	Order of allocation	Banks
	Offered (a)	Scale (b)			
1 day	5.90	5.90	0.00	5	A
	6.00	5.90	0.10	6	B
	6.10	5.90	0.20	8	C
2 days	6.00	6.05	-0.05	3	E
	6.05	6.05	0.00	4	G
3 days	6.10	6.20	-0.10	2	D
	6.35	6.20	0.15	7	H
5 days	6.35	6.50	-0.15	1	F

Scenario 1: In the case that BNR wants to mop up **15 billion Rwf**, the following bids are retained:

	Banks	Amount (in million Rwf)	Tenor (in days)	Interest rate	Retained amount	Total
1	F	2,000	5	6.35	2,000	2,000
2	D	2,500	3	6.10	2,500	4,500
3	E	2,000	2	6.00	2,000	6,500
4	G	2,500	2	6.05	2,500	9,000
5	A	2,000	1	5.90	2,000	11,000
6	B	3,500	1	6.00	3,500	14,500
7	H	1,500	3	6.35	500	15,000
8	C	2,500	1	6.10		

Scenario 2: In the case that BNR wants to mop up **10 billions Rwf**, the market would be attributed as follows:

	Banks	Amount (in million Rwf)	Tenor (in days)	Interest rate	Retained amount	Total
1	F	2,000	5	6.35	2,000	2,000
2	D	2,500	3	6.10	2,500	4,500
3	E	2,000	2	6.00	2,000	6,500
4	G	2,500	2	6.05	2,500	9,000
5	A	2,000	1	5.90	1,000	10,000

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