

Changes to refinancing operations

Subsequent to the release of a consultative paper titled “Modifications to the Money Market Operations of the South African Reserve Bank” on 10 December 2004, the South African Reserve Bank consulted extensively with market participants. The changes ultimately decided upon were implemented from 25 May 2005. The following changes were introduced:

- The Reserve Bank started announcing its estimate of the average daily market liquidity requirement and the expected range thereof for the coming week on the Wednesday morning prior to the main weekly repurchase auction. This would assist the banks in tendering. While normally the full amount tendered by each bank would be allotted, this would remain at the Bank’s discretion.
- Whereas previously supplementary square-off tenders at the fixed repurchase rate were frequently conducted, they would henceforth be restricted to instances where unexpected developments occurred giving rise to significant liquidity imbalances. This facility could also be offered towards the end of the reserve maintenance period to assist banks in complying with the averaging of reserves against their liquidity requirements.
- The rule in terms of which a bank first had to withdraw funds from its cash reserve account before making a deposit was abolished since the supplementary clearing and reverse facilities were phased out as regular features. This was expected to promote more active use of banks’ cash reserve balances.
- Standing facilities (previously referred to as final clearing or reverse repurchase tenders) to accommodate banks with short or long liquidity positions would henceforth be available at a spread of 50 basis points above or below the prevailing repurchase rate. The spread was also expected to act as a corridor within which interbank overnight rates would vary. These facilities would be available to all banks (both clearing and non-clearing), over and above the weekly main repurchase tenders and access to cash reserves.
- The South African Multiple Option Settlement (SAMOS) system penalty rate at a fixed 500 basis points above the prevailing repurchase rate would replace the marginal lending facility. This facility provides a final but expensive option to bridge banks’ temporary liquidity needs, with its high cost encouraging banks to settle their overdrawn positions in the position window period.

As could be expected, from 25 May the recently implemented changes resulted in variability in the repurchase agreement amounts allotted at the Wednesday auctions. This is illustrated in the accompanying table. As expected, banks also immediately started using the standing facilities alongside their cash reserve balances at the Bank to square-off their end-of-day positions. So far no supplementary repurchase auctions have needed to be conducted.

Amounts allotted at the main repurchase auctions on Wednesdays

R billions

Date	Amount
4 May 2005	13,0
11 May 2005	13,0
18 May 2005	13,0
25 May 2005	13,2
1 June 2005.....	12,7
8 June 2005.....	11,3

Interbank overnight rates have varied within the interest rate range set by the standing facilities, as shown in the graph on the following page.

