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CIRCULAR TO ALL BANKS

REVISED GUIDELINE FOR REPO TRANSACTIONS AND CBN INTER-BANK GUARANTEE

Our Circulars to all banks reference BOD/DIR/CIR/GEN/01/23 of March 16, 2009 and BSD/DIR/GEN/CIR/03/012 of July 13, 2009 on the above subjects refer. In view of the tight liquidity situation in the market, it has become necessary to carry out the following review in order to moderate money market interest rates in the overall interest of the economy.

Thus, with effect from the date of this circular, banks are hereby advised to be guided as follows:

i. FGN Bonds are eligible instruments for repo transactions at the CBN for tenors not exceeding 90 days. This is in order to create additional liquidity for placements and facilitate the free flow of funds in all segments of the inter-bank market.

ii. The restriction in our circular reference BOD/DIR/CIR/GEN/01/23 of March 16, 2009 that any Deposit Money bank/Discount Houses that obtains funds from any of the CBN's lending windows should not simultaneously place such funds in the inter-bank money market is hereby removed. Consequently, banks that have eligible instruments that qualify for repurchase transactions such as FGN bonds and Treasury Bills, may engage in repo transactions at the CBN window and place the proceeds of such transactions in the inter-bank market, should they wish to do so.

iii. With respect to transactions in the inter-bank market, the decision of the CBN to guarantee all inter-bank placements (including placements with banks by Pension Funds Administrators and Custodians) from July 2009 to March 31, 2010 remains unchanged. Transactions under this arrangement shall also continue to conform to the requirement on single obligor limit as contained in our earlier circular. However, the interest rate cap placed on such transactions is hereby removed.

Banks are again reminded that the reason for the above amendments is to inject additional liquidity into the system and deepen the inter-bank market with a view to correcting the disturbing trend in the market especially the rising interest rate that has exerted upward pressure on lending rates in the economy. It is hoped that these reviews will result in a reduction in inter-bank rates as well as interest rates in the system, thus aligning them with economic fundamentals and positioning the banks to better support the growth expectations of the economy.

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