



The Central Bank clarifies its Repurchase Agreement with the Federal Reserve Bank, New York

The Central Bank of Sri Lanka (CBSL) has recently entered into an agreement with the Federal Reserve Bank, New York (FED) as a temporary source of US liquidity to be used when required. The facility, in technical jargon, is an overnight Repurchase (Repo) facility available for "Foreign and International Money Authorities" (FIMA). Many central banks in the world have resorted to this facility to meet their short-term US dollar liquidity requirements. This facility enables the Central Bank to secure short-term funding when needed, without having to make any sudden structural adjustments to its long-term investment portfolios for foreign exchange.

As part of the contingency plans to meet COVID-19 related difficulties, the CBSL has decided to pledge a sum of USD 1 billion worth of US Treasury Bonds in the CBSL reserve and enter into the above type of Repo facility with the FED. This would permit the CBSL to raise USD 1 billion in cash form when required. When this Repo facility is settled by the CBSL, there will be no change in the CBSL Reserve position as the FED would release the pledged bonds back to CBSL. The cost to the CBSL would be the applicable Repo fee, which is about 0.35 per cent per annum.

The CBSL has entered into this agreement with the FED, but no borrowings have yet been made. Withdrawing from the facility at any point is at the discretion of the CBSL.

The statement found widely in media that the CBSL is pledging USD 4.5 billion worth of US Treasury Securities to obtain a credit facility of USD 1 billion is false. The CBSL wishes to reiterate that this facility is not extraordinary by any measure and constitutes an independent financial instrument available for use when required by central banks around the world.

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