# Central Bank of Seychelles

## Monetary Policy Framework

# Foreword

As per the Central Bank of Seychelles Act 2004, as amended, the primary objective of the Central Bank of Seychelles (hereafter referred to as the Bank) is to promote domestic price stability. Safeguarding price stability facilitates the efficient allocation of resources among various economic sectors and contributes towards a sound long run economy. The other objectives of the Bank include promoting a sound financial system and advise the government on banking, monetary and financial matters, including the monetary implications of proposed fiscal, credit policies or operations of the government.

Monetary policy is a critical tool that affects government expenditure, consumer spending, investment and net exports which in turn affects the price and output levels in the economy. With the change from a fixed to a floating exchange rate regime in late 2008, managing money supply has shifted from interventions in the foreign exchange market to other market-based monetary policy instruments. While such instruments, along with functioning money markets, are important for managing money supply under any type of exchange rate regime, their importance is of a greater magnitude under a floating exchange rate regime. Subsequently, the Bank is tasked with managing money supply through formulating monetary policy in accordance with the current and foreseen economic activity.

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## 1. Monetary Policy Framework

Under the current framework, the primary objective, price stability aims to preserve stable value of money. Price stability is to be achieved by influencing the level of spending by households and business which in turn affects money supply.

In formulating monetary policy, the Bank analyses the connection between monetary and other key economic variables and assesses the time lags of the effects. As a consequence of the monetary targeting system, monetary price variables, such as interest rates and exchange rates are, in principle, free to fluctuate and driven by market forces. However, the Bank is responsible for monitoring these variables and intervenes as and when necessary to ensure orderly market conditions.

In general, four definitions of monetary aggregates are used in analysing domestic monetary developments. The first monetary aggregate is "reserve money" which consists of currency issued by the Bank and deposits of other depository corporations (ODCs) with the Bank. The second monetary aggregate, "narrow money" (M1), is defined as the sum of currency with the public and transferable deposits. "M2", the third monetary aggregate comprises of M1 and quasi-money, the latter which comprises of fixed-term deposits and savings deposits. The fourth monetary aggregate is "broad money" (M3), which is defined as the sum of M2 and residents' foreign currency deposits.

To guide the interventions for managing depository institutions' liquidity, the Bank maintains a Liquidity Monitoring Framework which identifies the factors influencing liquidity in the money markets. This framework is used to make forecasts on future liquidity flows, taking into account foreign exchange transactions, government transactions, changes in currency in circulation and other transactions which impact on the amount of liquidity in the system.

The Bank modernised its monetary policy framework in the third quarter of 2017 to enhance the effectiveness and transparency of monetary policy implementation. This is achieved through the adoption of a more transparent and forward-looking approach in the Bank's monetary policy formulation and implementation, guided by interest rate formation. In principle, the operating target, reserve money, is complemented by the implementation of an overnight interest rate corridor which is expected to provide clearer guidance to the financial market for appropriate evolution of short term interest rates.

The applicable rates on the existing overnight facilities, that is, the Standing Credit Facility (SCF) and Standing Deposit Facility (SDF), will serve as the ceiling and the floor of the short-term interest rate corridor, respectively. The overall policy stance will be approved by the Board and guided by the Bank's macroeconomic modelling and forecasting framework which applies the fundamental principles of economic theory to predict key macroeconomic variables.

The reform to the monetary policy framework will result in more proactive and open communications. The rates of the corridor will be reviewed and published on a quarterly basis, following Board approval. Subsequently, a press communiqué and press conference shall convey the decision.

The corridor is expected to guide financial institutions in setting their interest rates as well as assist economic agents in making better informed financial decisions. It is expected that short-term interest rates will be more sensitive to monetary policy signals, and contribute more effectively towards achieving the objective of price stability.

In addition, the Bank manages money supply indirectly with reserve money chosen as the operating target of monetary policy. Reserve money is linked to money supply through the money multiplier[1] which is assumed to be relatively stable and predictable. Thus, by changing the levels of reserve money, the Bank aims to control money supply.

Based on analysis and projections of key macroeconomic data, the interest rate corridor and its corresponding level of reserve money are formulated. These are designed to achieve monetary growth congruent to macroeconomic projections; so as to ensure that the desirable general price level deemed stable for the Seychelles economy is achieved and maintained.

The Bank therefore relies on its market operations to ensure that short-term market rates are within the interest rate corridor and to achieve an appropriate level of reserve money. In these structured operations, a strong focus is placed on managing the excess reserves of ODCs, which is defined as deposits with the Bank above minimum reserve requirements. Influencing the direction and

[1] Money multiplier refers to the amount of money generated from a unit of reserves.

level of excess reserves in the banking system helps to achieve a predictable pattern for liquidity management. Hence, notwithstanding the fact that reserve money remains the nominal anchor and an indicator of the direction of monetary policy, managing the levels of excess reserves induces improved liquidity management.

The objective for monetary policy implementation is to guide interest rate formation on the economy. And with the implementation of the interest rate corridor, short-term interest rates should become more sensitive to monetary policy signals and better reflect market expectations. The overall effectiveness of monetary policy will increase when interest rates over a wide spectrum of the yield curve can be allowed to respond to changing monetary impulses. This objective has to be viewed as a long-term desirable development which must pass through various stages of market development. The reform will increase transparency of monetary policy. Furthermore, the Bank will enhance its dialogue with stakeholders of the economy as a part of its efforts to increase the quality of communication on monetary policy.

## 2. Decision-making process for monetary policy implementation

The Board of Directors is responsible for monetary policy, which is discussed at pre-set quarterly meetings, whilst the responsibility to oversee its operational implementation has been delegated to the Monetary Policy Technical Committee (MPTC) within the general guidelines determined by the Board and directions given by the Governor.

The MPTC reports on its activities to the Board and makes recommendations on appropriate future implementation of monetary policy.

## 3. Terms of Reference of the Monetary Policy Technical Committee (MPTC)

### Mandate

The MPTC is established by the Bank's Board of Directors with the responsibility to consider, advise and decide on issues primarily relating to the formulation and implementation of monetary policy within the general guidelines determined by the Bank's Board.

The MPTC shall report on its activities to the Board of Directors at least on a quarterly basis.

### Composition

The Chairperson shall be the First Deputy Governor and other representatives of the Committee shall be the Second Deputy Governor and the Head or a designated representative from the following Divisions:

- Banking Services Division (BSD)
- Financial Markets Division (FMD)
- Financial Surveillance Division (FSD)
- Financial Inclusion and Market Conduct Division (FIMCD)
- Research and Statistics Division (RSD)

FMD shall act as Secretariat to the MPTC.

### Functions

The primary functions of the MPTC shall be to:

- provide a forum for the exchange of information on, and analysis of, current
  - overall macroeconomic developments in the country and abroad.
  - developments in key financial indicators.
- provide a forum for the consideration of research and analysis relevant to the formulation and implementation of monetary policy.
- evaluate developments and trends in overall liquidity of the financial system.
- initiate the use of instruments under the control of the Bank in line with decisions adopted by the Board.

The decisions will be guided by the analysis and policy recommendations of FMD and RSD as well as any other proposal brought forth by an MPTC member.

### Meetings

As the Secretariat of the committee, FMD is responsible for setting up MOC meetings, subject to the approval of the Chairperson. Any other member may also request to have a non-scheduled MPTC meeting if approved by the Chairperson.

The MPTC shall have a main meeting at least once a month to coincide with the start of a new Minimum Reserve Requirement (MRR) maintenance period. In the event that the main monthly meeting cannot be conducted on the planned date the meeting should be rescheduled within the next 48 hours.

Minutes of all MPTC meetings, which record all formal decisions, and the views of all members shall be taken and forwarded via email to all members within 10 working days following the meeting.

If the First Deputy Governor is not present or acting Chief Executive Officer of the Bank, as prescribed by the CBS Act 2004, as amended, he or she shall nominate a member to chair the meeting.

## Decision Making

During a sitting of the Committee, each member shall express their views based on the submitted information or proposal, as the case may be.

Where in place of a meeting, members' views are sought via email a majority of the members in office shall express their views.

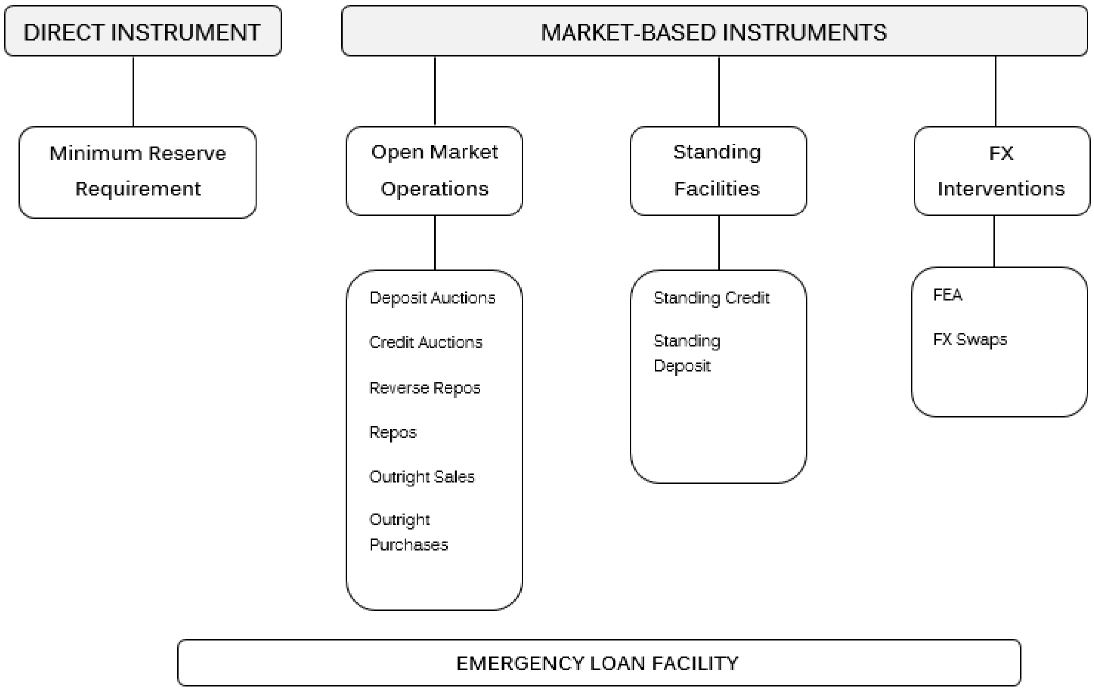
The Committee shall consider each view in turn, and the view preferred by a majority of the members shall prevail and be adopted as the decision of the Committee, provided that the Chairperson is in support of this view.

If the Chairperson disagrees with the view of the majority or if there is no majority view he/she shall have the authority to take a decision based on his/her own view or the view that he/she supports.

Where the Chairperson takes a decision in accordance with the above section he/she shall, as soon as possible inform the Board of Directors of the exercise of his/her authority under that section and his/her reasons for doing so.

## 4. Monetary Policy Instruments

The Bank uses available monetary policy tools for the conduct of open market operations and foreign exchange interventions, so as to ensure an effective market-based implementation of monetary policy.




### A. Minimum Reserve Requirement

The Minimum Reserve Requirement (MRR) system provides a simple and effective mechanism to alter the supply of total liquidity in a country like Seychelles where the development of market-based indirect instruments is at an early stage.

As stipulated under Part VII, Article 31 of the CBS Act 2004, as amended, the Bank may require the maintenance of minimum required reserves against deposits or other similar liabilities. However, funds held in the form of trust or custodian accounts for specific projects shall not be subject to the MRR.

The Bank acknowledges reserve requirements as a very powerful instrument and seeks to avoid large and frequent changes in the ratio. As the Bank aims to make use of the multiplier link between reserve money and money supply, a change in the reserve ratio will directly affect the money multiplier. High reserve requirements may also influence the development of the rest of the financial sector and they tend to increase the interest rate spread. The long term objective is therefore to gradually reduce the requirements as monetary conditions improve and the use of market-oriented instruments has become more effective.

### B. Open Market Operations

The Bank transacts in the primary market (called open market operations) to influence the liquidity level and send signals about the stance of monetary policy.

These transactions are conducted through an auction mechanism. The choice between fixed rate and variable rate tenders are dependent on the market situation and the development in reserve money relative to targets. In a variable rate tender, the Bank determines the price based on the submitted bids from participants. With reserve money as the operating target, variable rate tenders allow the Bank to determine the quantity it wants to sell or buy at a market determined rate. Fixed rate tenders are only used in extraordinary circumstances when there is uncertainty in the market and a need for the Bank to send a clear signal.

The types of available instruments are summarised below. The details are included in the **Operational Guidelines for Policy Tools**.

#### *i. Deposit Auction Arrangement (DAA)*

The DAA was introduced by the Bank as an instrument to manage liquidity. It is a convenient means for ODCs to invest their excess liquidity with the Bank and earn a return on idle funds, as opposed to placing these funds in riskier investments. It is currently being used as the main monetary policy instrument to absorb excess liquidity levels within the banking system for a specified length of time.

The Bank determines the various parameters, such as the frequency, type of auction, maturities and the number of bids to be submitted, depending on the needs in the market and monetary policy objectives.

#### *ii. Credit Auction Arrangement (CAA)*

The CAA is an open market tool used to supply liquidity in the system. It is used as and when the need to inject liquidity in the system arises and serves a similar purpose to the overnight lending facility. However, the use of the CAA is initiated by the Bank and not the participants. The Bank may offer CAA, based on current monetary and liquidity stance and the interest rate is generated from the auction process.

### *iii. Securitization of Government Debt*

The marketable securities, which resulted from the conversion of a 20 year Government Restructuring Bond into smaller tranches, can be used by the Bank for temporary and/or permanent adjustments in liquidity. The conversion and subsequent extensions upon maturity is governed by a Memorandum of Understanding (MOU) between the Bank and the Ministry responsible for finance.

### *iv. Outright sales and Purchases*

The Bank may also use the securities it holds for outright sales to the market in situations where there is a need for a more permanent sterilisation of liquidity. These sales can be conducted on an auction basis or on a bilateral basis. In the latter case, without a well-functioning secondary market, it will be important to determine a fair and appropriate market price. The Bank may buy securities from the secondary market in the situation where there is a need to supply liquidity on a permanent basis. The purchases may be conducted on an auction or bilateral basis.

### *v. Repurchase Agreements*

The Bank may use repurchase agreements (repos) to inject liquidity and reverse repurchase agreements (reverse repos) to withdraw liquidity on a temporary basis. A repo transaction involves injection of liquidity whereby the Bank buys government securities as underlying collateral (with an appropriate haircut to reflect current market value) from the ODCs at a particular price, with an understanding to sell back the same securities to its original owner at the original buying price at a specified future date, under a formal legal agreement.

A reverse repo transaction, on the other hand, involves the withdrawal of liquidity whereby the Bank sells securities to ODCs at a specific price, with an understanding to repurchase the same securities at the original selling price at a particular future date, under a formal legal agreement.

The repo and reverse repo rates are determined through the auction system and interest payments are computed on the basis of the duration of the agreements and the principal amounts involved.

### C. Standing Facilities

Standing Facilities refer to the Standing Credit and Deposit Facilities, offered by the Bank to ODCs for management of their short-term liquidity position. The Standing Deposit Facility (SDF) allows these institutions to place reserves overnight at the Bank whilst the Standing Credit Facility (SCF) is an overnight collateralised lending facility. In view of providing clearer guidance to the financial market with regards to appropriate evolution of short term interest rates, the SCF and SDF will serve as the ceiling and the floor of the short-term interest rate corridor, correspondingly.

The primary aim of the credit facility is to ensure that ODCs can meet their payment obligations at end-of-day settlement. This is a necessary precondition for a smooth functioning payment system. A standing credit facility has an important monetary policy function in that it induces participants to manage their liquidity more actively, tends to reduce the level of excess liquidity in the system and contributes to stabilising market interest rates. The rates applicable on both facilities are determined by the Bank. Subject to the availability of eligible collateral for the SCF, the Bank is providing open access to the SCF and SDF daily.

### E. Foreign Exchange Interventions

The Bank intervenes in the foreign exchange market for external reserves management purposes or to smooth out excessive volatility in the domestic exchange rate and ensure orderly market conditions. Purchases from the market add liquidity whilst also increasing the official reserves; a sale has the opposite effect.

#### *i. Foreign Exchange Auctions (FEA)*

This instrument allows for the purchase and sale of foreign exchange (EURO, USD and GBP only) by the Bank as part of its foreign exchange and monetary operations. Auctions are carried out as and when necessary in the context of the current foreign exchange and monetary policies as well as the reserves management and investment guidelines.

### *ii. Foreign Exchange Swaps*

In terms of liquidity management by the Bank, an FX swap involves the exchange of a given amount of foreign currency (EURO, USD, and GBP only) against the domestic currency (the rupee) at an agreed exchange rate on an agreed date (spot date), and then a re-exchange of these two currencies on a later date (forward date), also at an agreed exchange rate. The exchange rates for both transactions are agreed at the time the swap is entered into, that is, on the deal date, thereby removing any exposure to exchange rate movements during its duration.

An FX swap transaction has two separate legs with two different settlement or value dates: a spot leg and a forward leg. These can be done through two types of transactions, the **Buy-and-sell** and **Sell-and-buy.**

FX swap transactions shall be backed by a Foreign Exchange Swap Agreement, with provisions for both legs of the transaction. FX Swap transactions are to be managed and initiated by the Bank.

Over time, this may also help to develop the domestic foreign exchange market. FX Swap may also be used by the Bank to temporarily change the composition of international reserves, as determined by the Reserves Management and Investment Guidelines.

### *Central Bank Foreign Exchange Transactions*

All foreign exchange transactions conducted by the Bank must be in line with Article VIII of the IMF Articles of Agreement. The Article refers to the spread allowed for spot exchange transactions between the currencies of member countries of the IMF. It stipulates that the rate used for spot transactions shall not differ from prevailing mid-rate by more than ±1%.

When conducting FEAs, the Bank must ensure the MCP rule, which defines the margin between the spot transaction and the prevailing mid-rate, is not breached, as stipulated under the Article VIII.

For transactions undertaken on behalf of government and government-related agencies, the Bank shall use the previous day's mid-rate based on the average traded exchange rates of authorised dealers. As per the Article VIII, any day's transaction rate shall not be in breach of the MCP rule.

## 5. Eligibility Criteria

Eligibility criteria for participation in the Bank's open market operations and foreign exchange interventions are limited to:

- Any participant liable to reserve requirements;
- Participants must be in a 'generally sound financial condition' and must not have any existing arrangement under the Emergency Loan Facility (ELF);
- Any additional criteria as set out in the relevant sections of the instruments as per the **Operational Guidelines for Policy Tools**;
- Participation is entirely on a voluntary basis.

## 6. Clause on Penalties

This section provides for events of default in transactions relating to monetary policy instruments, denominated in both rupee and foreign currencies. It shall be applicable to all instruments used for foreign exchange interventions, standing facilities and open market operations.

Participants who do not comply with the obligations laid out in the operational guidelines for specific policy instruments[2] shall be subject to:

***(i) Financial Penalties***

6.1 In the event of late payment in the specified foreign currency and/or insufficient funds in the rupee account with Bank, the defaulting party shall pay to the aggrieved party for each day that payment is delayed such amounts to be calculated as per 6.1.1, 6.1.2 and 6.2:

6.1.1 **For the foreign exchange component**, a penalty interest equivalent to the overnight LIBOR plus 500 basis points (i.e.

[2] Excluding the MRR, which is covered under the CBS Act, 2004, as amended.

plus 5.0 per cent p.a.), in addition to a fixed minimum amount of 1,000 units of the currency of auction, is applicable on the amount that is not settled. Should the total amount exceed 10,000 units of the currency of auction, then a maximum penalty fee of 10,000 units is applicable.

6.1.2 **For rupees**, a penalty interest equivalent to the latest 7-day weighted average rate for the DAA plus 500 basis points (i.e. 5.0 per cent p.a.), in addition to a fixed minimum penalty of R10,000, is applicable on the amount that is not settled. Should the total penalty exceed R100,000 then a maximum penalty fee of R100,000 is applicable. In the event that the 7-day DAA rate is not available, the most recent 91-day T-Bills rate will be used instead.

6.2 For the first breach, penalties as defined in 6.1.1 and 6.1.2 shall apply. In the event of a second and successive infringement that occurs within a 12-month period from the date of the first breach, the penalty interest rate shall be 750 basis points (i.e. 7.5 per cent p.a.).

6.3 In the event of a third and successive breaches within a 12-month period from the date of the first breach, the party shall be liable to a financial penalty as specified in 6.2, in addition to suspension from subsequent operations (as per ***Section (ii)*** below) - of the same type and executed under the same procedures.

***(ii) Non-Financial Penalties***

6.4 The duration of suspension shall be for:

6.4.1 One month if the infringement amounts to less than 40 per cent of the total accepted bids;

6.4.2 Two months if the infringement amounts to between 40 – 80 per cent of the total accepted bids;

6.4.3 Three months if the infringement amounts to between 80 – 100 per cent of the total accepted bids.

6.5 The parties shall not be liable for damages for any delay or failure to comply arising out of causes beyond their reasonable control and without their fault or negligence, including but not limited to, Acts of God, fires, riots and wars.

## 7. Eligible Collaterals

When the Bank lends in its operations, it does so against certain assets to protect itself from the risks associated with holding them; notably market risk and credit risk of the issuer.

The assets considered as eligible collaterals against Bank's lending consists of instruments issued by the Bank, the government and financial corporations. Additionally, other assets such as balances due are also taken to be qualified. These assets are classified according to their respective risk profile. They are classified in three categories, with category 1 having the lowest risks and category 3 the highest.

| Category 1 | Category 2 | Category 3 |
|---|---|---|
| DAA | Securities issued by banks and other financial institutions | Government securities (foreign currency denominated) |
| Central Bank bills | Negotiable instruments approved by the Bank that are payable within 180 days | Securities issued by banks and other financial institutions (foreign currency denominated) |
| Treasury bills | | Negotiable instruments approved by the Bank that are payable within 365 days |
| Government Bonds and Stocks (rupee denominated) | | Balance due from financial institutions overseas (foreign currency denominated) |

In all circumstances, the value of the collateral as calculated under the **Operational Guidelines for Policy Tools** shall be equal to or greater than the credit being sought. The term-to-maturity of the collateral should not be less than the term of the credit facility. A haircut shall be applicable to the value of these collaterals in a bid to protect the Bank from the risks associated with holding them; notably market risk and credit risk of the issuer.

## 8. Emergency Loan Facility

The Emergency Loan Facility (ELF) – an emergency liquidity support facility[3] – is offered to prevent severe and persistent liquidity problems at any ODCs and thus can be used to avoid bank runs. Hence, compared to the SCF, which aims mainly at meeting payment obligations at end-of-day settlement, the ELF primarily addresses the issue of severe short term liquidity shocks which cannot be met from an alternative source. It has the option of being transformed into a specific package to suit the nature and characteristics of the circumstance, thus preventing potential solvency issues, as opposed to being purely procedural in nature. To ensure that the facility is sought as a means of last resort, it will be provided at a penalty rate.

The current financial climate may see financial institutions becoming more prone to both systemic shocks as well as intra-related risks that may develop over time. To this end, the ELF will ensure that the banking sector remains operational through the means of credit made available by the Bank using acceptable assets as collateral and in the process eliminate a potential domino effect.

The success of the facility will be influenced by two-way communication between the Bank and the institution using the facility, thus dialogue between the two will be essential for the smooth functioning of this instrument.

### Solvency Forecasting and Stress Tests

In view of the monitoring mechanism set by FSD, ODCs will be expected to report all relevant information to the Division for a thorough assessment to be carried out on the financial position and performance of any institution that intends to avail itself of this facility. The set of monitoring procedures, including stress testing, will allow the Bank to assess ODCs current financial situation including their solvency status and to foresee any potential severe liquidity

[3] In the future, the Bank may consider the discounting of government papers and repos of acceptable Bank's assets as appropriate emergency liquidity support facilities.

shock that could potentially lead to insolvency, and to act accordingly by employing remedial actions as provided for by laws administered by the Bank.

ODCs will be expected to ensure that the information provided to FSD is accurate and correct.

To this end, approval to access the ELF will greatly be influenced by the outcome of the assessment by FSD as well as RSD. Financial institutions that borrow through the ELF will be subject to enhanced supervision.

**Terms of the Facility**

Eligible participants for the ELF are as defined under the Eligibility Criteria.

The loan will only be granted following approval by Board[4] after considering both financial and monetary stability issues with the assistance of FSD and RSD.

For guarantee of credit, deposit-taking institutions must have adequate and sufficient collateral(s) to back the credit granted. Financial institutions will be required to surrender/pledge to the Bank the collateral(s) on the day the facility is used.

Eligible assets that qualify as collaterals for the ELF are listed in Section 7. The Bank reserves the right to accept or reject any of these assets as collaterals and to consider assets other than those listed therein.

The value of the collateral(s) shall be determined as per the above-mentioned document.

**a. Maturity**

The Bank will provide emergency liquidity to financial institutions against collateralised assets with initial loan duration of 60 days which should not exceed the maturity of the collateral(s) given.

[4] In line with the Central Bank of Seychelles Act 2004, as amended.

Subject to the approval of the Board and based on the recommendations made by FSD, such liquidity support may be extended in 30 day increments up to a maximum as stipulated under the CBS Act 2004, as amended.

**b. Interest Calculation**

Interest rate for the facility shall be set by the Bank.

**Procedures and Instructions**

**a. Application for the facility**

Once an institution has decided to access the facility and meets all the required preconditions stated in section II, a request letter addressed to the Governor or Deputy Governor for the attention of the Head of FSD will be sent to the Bank. The letter must contain the following:

- the rationale for borrowing;
- the requested amount;
- proposed loan duration;
- the list of collaterals; and
- the authorisation for the Bank to credit the respective account following approval.

Submission may be made by facsimile, email or hand delivered. Only authorised signatories provided by the financial institutions to BSD will be accepted as designated guarantors to the credit. In the event of a submission via email, only requests with the financial institution's email extensions will be accepted and furthermore, requests must be confirmed via telephone.

**b. Approval and Credit of Funds**

Upon receipt of the letter, copies will be sent to FSD and RSD for prior considerations. Recommendations based on financial and monetary stability will be made respectively to the Board for its approval on the following day[5]. If the situation is deemed more critical, an urgent Board meeting may be called for.

The FSD will inform the financial institution by phone whether its application has been successful or not and this will be followed by an official letter from either the Governor/Deputy Governor or a Head of Division assigned by the Governor. In the case of approval, the letter will state the approved amount to

[5] Please note that this may be effected by the time the request was made.

be extended, the interest cost and the repayment date based on the institution's request letter taking into consideration recommendations made by FSD and RSD. At the same time, the institutions' account will be credited with the sum of credit approved and the collateral(s) will be kept within the possession of the Bank.

In the case when the application has not been successful, the Governor/Deputy Governor or a Head of Division assigned by the Governor will inform the institution in question by written notification.

c. **Repayment**

On maturity of the facility, financial institutions will repay the credit amount along with the interest payment based on the Bank's interest rate as specified in the approval letter. The total amount, inclusive of interest will be automatically debited from the institution's account on the repayment date.

**Penalties**

If the facility is not repaid in full upon maturity and there was no recommendation made for a further extension by FSD, the Bank will acquire the collaterals provided, and impose a penalty as per the **Clause on Penalties** defined in Section 6 and if necessary, impose strict corrective measures.

**Amendments**

The Bank may revise any of the above conditions if it does not meet the overall objective of its monetary policy stance.