Notice No. : CBUAE/MMD/2020/3082
Date : 5 July 2020
Class. : Public
To : All Banks Operating in the UAE
Subject : Overnight Deposit Facility

After greetings,

Effective 12 July 2020, the Central Bank of the UAE (CBUAE) shall introduce a new deposit facility named Overnight Deposit Facility (ODF). This facility shall enable conventional banks operating in the UAE to deposit their surplus liquidity at CBUAE on an overnight basis.

The introduction of the ODF is the first step towards implementation of the new Dirham Monetary Framework announced earlier this year. The ODF shall be the prime facility for managing surplus liquidity in the UAE banking sector prior to the launch of the Monetary Bills Program and shall replace issuance of one-week Certificate of Deposits.

With the introduction of ODF, the general stance of the CBUAE’s monetary policy shall be signaled through the interest rate of the ODF, which becomes the main policy rate of the CBUAE and will be referred to as the Base Rate. Accordingly, the CBUAE expects that overnight money market rates should hover around the Base Rate under normal markets conditions.

The Base Rate, which will be anchored to the US Federal Reserve’s Interest on Excess Reserves (IOER), should also provide the effective interest rate floor for overnight money market rates. With effect from 12 July 2020, the Base Rate shall be 10 basis points.

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The CBUAE will also be providing a variant facility of the ODF to cater for licensed financial institutions that carry on all or part of their activities and business in accordance with the provisions of Shariah rules. Until this facility becomes operational, the CBUAE will continue to offer to these institutions the one-week commodity Murabaha-based Islamic Certificate of Deposits, which will be breakable on daily basis.

Any queries in this regard may be addressed to the Monetary Management Department of CBUAE by emailing to:

Monetary.Management@cbuae.gov.ae

Yours faithfully,

[Signature]

Abdulhamid M. Saeed Alahmadi
Governor