

Rationalisation of Standing Facilities

REF: No. MPD. BC.243/07.01.279/ 2003-04

**November 5, 2003
Kartika 14, 1925(S)**

To
All Scheduled Banks (excluding Regional Rural Banks (RRBs))
and Primary Dealers

Dear Sirs,

Rationalisation of Standing Facilities

Please refer to Paragraph 61 of the Governor's statement on Mid-term Review of Monetary and Credit Policy for the year 2003-04 enclosed with his letter No. MPD. BC.241/07.01.279/2003-04 dated November 3, 2003 (copy of the paragraph enclosed).

2. At present, banks are eligible for standing facility (export credit eligible for refinance) and Primary Dealers (PDs) are eligible for collateralised liquidity support from RBI subject to certain limits. These limits are split into a "normal" facility and a "back-stop" facility. Currently, the apportionment between "normal" and "back-stop" facilities is one-half each.

3. In order to move further towards phasing out sector-specific standing facilities as also to rationalise the rates at which liquidity is injected into the system, it has been decided that the "normal" and "back-stop" portions of standing facilities will be available in a ratio of one-third to two-thirds (33:67) from the fortnight beginning December 27, 2003.

Kindly acknowledge receipt.

Yours faithfully,
(Deepak Mohanty)
Adviser

Encl.: as above

Extract from Governor's Statement on Mid-term Review of Monetary and Credit Policy for the year 2003-04

(b) Rationalisation of Standing Facilities

61. Banks are eligible for standing facility (export credit eligible for refinance) and PDs are eligible for collateralised liquidity support from RBI subject to certain limits. These limits are split into "normal" facility and "back-stop" facility. With the emergence of the liquidity adjustment facility (LAF) as an effective instrument in modulating system liquidity, in the mid-term Review of October 2002, the apportionment between "normal" and "back-stop" facilities

was changed to one-half each. In view of current liquidity conditions, the utilisation of these facilities by banks and PDs has been negligible. In order to move further towards phasing out sector-specific standing facilities as also to rationalise the rates at which liquidity is injected into the system, it is proposed that:

- The “normal” and “back-stop” standing facilities will be available in a ratio of one-third to two-thirds (33:67) from the fortnight beginning December 27, 2003.