

October 26, 2004

**All Scheduled Commercial Banks (excluding RRBs)
and Primary Dealers**

Dear Sir,

Revised Liquidity Adjustment Facility

Please refer to paragraphs 66 through 70 of the Mid-Term Review of Annual Policy Statement for the year 2004-05 dated October 26, 2004.

2. In view of the current macroeconomic and overall monetary conditions, it has been decided, effective October 27, 2004, to increase the fixed repo rate by 25 basis points to 4.75 per cent from the present 4.50 per cent under the Liquidity Adjustment Facility (LAF) of the Reserve Bank.

3. The reverse repo rate will continue to be linked to the repo rate, as at present. However, with effect from October 27, 2004, the spread between the repo rate and the reverse repo rate is reduced by 25 basis points, from 150 basis points to 125 basis points. Accordingly, the fixed reverse repo rate under LAF will continue to remain at 6.0 per cent.

4. Further, the LAF Scheme will be modified as under:

- (i) It has been decided, effective October 29, 2004, to switchover to the international usage of the terms "repo" and "reverse repo". With this switchover, the fixed reverse repo rate will stand at 4.75 per cent and the fixed repo rate with a spread of 125 basis points over the fixed reverse repo rate, will stand at 6.0 per cent.
- (ii) With a view to enhancing further the effectiveness of LAF and to facilitate liquidity management in a flexible manner, the auctions of 7-day and 14-day repo (reverse repo in international parlance) will stand discontinued with effect from November 1, 2004. Accordingly, the LAF Scheme would be operated through overnight fixed rate repo and reverse repo with effect from November 1, 2004.

5. The Reserve Bank will, however, continue to have the discretion to conduct overnight/longer-term repo/reverse repo auctions at fixed rate or at variable rates depending on market conditions and other relevant factors.

6. A detailed circular on the revised LAF Scheme, incorporating the changes mentioned in para 4 above, will be issued shortly.

Yours faithfully

(Jasbir Singh)
Chief General Manager