

January 31, 2007

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

Dear Sir,

Liquidity Adjustment Facility – Repo and Reverse Repo Rates

Please refer to paragraphs 93 and 94 of the 'Third Quarter Review of Annual Statement on Monetary Policy for the year 2006-07' dated January 31, 2007 and our circular FMD.No.10/01.01.01/2006-07 dated October 31, 2006.

2. In view of the current macroeconomic and overall monetary conditions, it has been decided, to increase the fixed repo rate under the liquidity adjustment facility (LAF) of the Reserve Bank by 25 basis points with effect from Second LAF of January 31, 2007 to 7.50 per cent from 7.25 per cent. The reverse repo rate under the LAF remains unchanged at 6.00 per cent. All other terms and conditions of the current LAF Scheme will remain unchanged.

3. Your attention is also drawn to para 95 where it is reiterated that the Reserve Bank retains the option to conduct overnight repo or longer term repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank will continue to use this flexibility including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management

Yours faithfully

(Chandan Sinha)
Chief General Manager