

July 31, 2007

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

Dear Sir,

**Liquidity Adjustment Facility**

Please refer to paragraph 100 and 103 of the First Quarter Review of Annual Monetary Policy for the year 2007-08 and our circulars FMD. No.2/01.01.01/2005-06 dated November 25, 2005 and FMD.MOAG No.12 /01.01.01/2006-07 dated March 2, 2007.

2. In view of the current macroeconomic and overall monetary and liquidity conditions, it has been decided to withdraw the ceiling of Rs. 3,000 crore on daily reverse repo under the LAF with effect from August 6, 2007 (Monday). The Reserve Bank, however, retains the discretion to re-impose a ceiling as appropriate.

3. On a review, the Second LAF (SLAF) introduced in November 28, 2005 and conducted between 3.00-3.45 pm on a daily basis is being withdrawn w.e.f. August 6, 2007. The Reserve Bank would continue to conduct LAF operations between 9.30 am and 10.30 am as a single LAF window. Until notified, these auctions will be on a fixed rate basis as hitherto.

4. However, the Reserve Bank has the flexibility to conduct repo/reverse repo auctions at a fixed rate or variable rates as circumstances warrant. The Reserve Bank also retains the option to conduct overnight or longer term repo/reverse 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.

5. The other terms and conditions for LAF remain as notified by our earlier circular FMD.MOAG No.13 /01.01.01/2006-07 dated March 30, 2007.

Yours faithfully

(Chandan Sinha)  
Chief General Manager