

July 29, 2008

All Scheduled Commercial Banks (excluding RRBs) and Primary Dealers

Dear Sir,

Liquidity Adjustment Facility – Repo and Reverse Repo Rates

Please refer to paragraphs 104 and 105 of the “ First Quarter Review of Annual Statement on Monetary Policy for the Year 2008-09” dated July 29, 2008 and our circular FMD.MOAG. No.19/01.01.01/2007-08 dated June 24, 2008.

2. In view of the current macroeconomic and overall monetary conditions, it has been decided to increase the fixed repo rate under the LAF by 50 basis points from 8.5 per cent to 9.0 per cent with effect from July 30, 2008. The reverse repo rate under the LAF remains unchanged at 6.00 per cent. All other terms and conditions of the current LAF Scheme remain unchanged.

3. Your attention is also drawn to paragraphs 106 and 107 *ibid* where it has been reiterated that the Reserve Bank has the flexibility to conduct repo/reverse repo auctions at a fixed rate or at variable rates as circumstances warrant and that it 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

Yours faithfully

(Chandan Sinha)
Chief General Manager