

September 16, 2008

All Scheduled Commercial Banks (excluding RRBs)
and Primary Dealers

Dear Sir,

SECOND LIQUIDITY ADJUSTMENT FACILITY

Please refer to the market measures announced by the Reserve Bank today i.e. September 16, 2008 to alleviate transient pressures on domestic money and forex markets which are related largely to external developments.

2. At present, the Reserve Bank of India operates a Liquidity Adjustment Facility (LAF) to inject/absorb liquidity through daily repos/reverse repos auctions. These operations are conducted in the forenoon between 9.30 A.M. and 10.30 A.M. In addition, for fine-tuning the management of bank reserves on the last day of the maintenance period, a second LAF (SLAF) on reporting Fridays, was introduced with effect from August 1, 2008. The SLAF is conducted between 4.00 PM and 4.30 PM. The salient features of SLAF are same as those of LAF. However, the settlement for the LAF and SLAF is conducted separately and on gross basis.

3. In view of the current liquidity conditions, it has been decided that the SLAF will be conducted on a daily basis, beginning September 17, 2008, till further notice.

4. The Reserve Bank would continue to reserve the right to accept or reject any or all of the tenders received under LAF/SLAF, wholly or partially, without assigning any reason.

5. The other terms and conditions for LAF remain as notified by our earlier circulars.

Yours faithfully,

(Chandan Sinha)
Chief General Manager