


	<b>प्रेस प्रकाशनी PRESS RELEASE</b>
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September 16, 2008

### **RBI Announces Market Measures**

The recent extraordinary global developments triggered by the bankruptcy/sell-out/restructuring of some of the world's largest financial institutions have resulted in severe disruptions of international money markets, sharp declines in stock markets across the globe and extreme investor aversion. Several central banks and financial regulators have responded with both unusual and unconventional measures to facilitate the orderly operation of financial markets and to ensure financial stability.

These developments have also brought some pressures to bear on the domestic money and forex markets, in conjunction with temporary local factors such as advance tax outflows. The Reserve Bank of India is closely monitoring the developments in the global as well as domestic financial markets and stands ready to take such pre-emptive action as may be necessary to contain excess volatility in the domestic financial markets.

In order to alleviate these transient pressures which are related largely to external developments, the Reserve Bank has decided to take the following measures:

#### **(a) Forex Market**

In the light of current developments in the foreign exchange markets, as on some previous occasions, the Reserve Bank will continue to sell foreign exchange (US dollar) through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps. The Reserve Bank would either sell the foreign exchange directly or advise the bank concerned to buy it in the market. All the transactions by the Reserve Bank will be at the prevailing market rates and as per market practice.

#### **(b) Interest Rates on FCNR (B) Deposits**

Currently, the interest rate ceiling on FCNR (B) deposits of all maturities has been fixed at Libor/Euribor/Swap rates for the corresponding maturities minus 75 basis points for the respective foreign currencies. In view of the prevailing market conditions, it has been decided:

- to increase, with immediate effect, the interest rate ceiling on FCNR (B) deposits by 50 basis points, *i.e.*, to Libor/Euribor/Swap rates minus 25 basis points.

#### **(c) Interest Rate on NR(E)RA Deposits**

Currently, the interest rate ceiling on NR(E)RA for one to three years maturity should not exceed the Libor/Euribor/Swap rates for US dollar of corresponding maturity. In view of the prevailing market conditions, it has been decided:

- to increase, with immediate effect, the interest rate ceiling on NR(E)RA deposits by 50 basis points, *i.e.*, to Libor/Euribor/Swap rates plus 50 basis points.

**(d) Additional Liquidity Support under LAF**

At present, banks obtain liquidity from the Reserve Bank under the liquidity adjustment facility (LAF) against the collateral of eligible securities that are in excess of their prescribed statutory liquidity ratio (SLR). It has been decided that, in addition, purely as a temporary measure, scheduled banks may avail additional liquidity support under the LAF to the extent of up to one per cent of their net demand and time liabilities and seek waiver of penal interest. This measure is ad hoc, temporary in nature and will be reviewed on a continuous basis in the light of the evolving liquidity conditions.

The additional liquidity support will be available with effect from the LAF/SLAF auctions of September 17, 2008.

**(e) Second LAF**

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.

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

It may be recalled that, on earlier occasions of market stress also, the Reserve Bank had given market participants assurances of domestic as well as foreign currency liquidity to financial markets and had announced certain measures, which were ad hoc and temporary in nature.

**Alpana Killawala**  
Chief General Manager

**Press Release: 2008-2009/338**