प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI announces further measures for improving domestic and foreign currency liquidity

The Reserve Bank of India has been continuously monitoring the liquidity and monetary conditions in the recent period. A host of measures have already been taken over the last one month to ensure that there is adequate liquidity in the system.

The Indian interbank unsecured money market has been functioning normally. Average daily volumes in the overnight call money market, at about Rs.14,000 crore in October 2008 have in fact been somewhat higher than those observed in the previous six month period. However, the continuing uncertain global situation is having an indirect impact on our financial markets. On a further review, the RBI has decided to institute the following measures:

(i) The cash reserve ratio (CRR) of scheduled banks is currently at 7.5 per cent of their net demand and time liabilities (NDTL). On a review of the evolving liquidity situation, it has been decided to reduce the CRR by 100 basis points to 6.5 per cent of NDTL with effect from the current reporting fortnight that began on October 11, 2008. This measure will release additional liquidity into the system of the order of Rs.40,000 crore.

(ii) On Tuesday, October 14, 2008, the RBI decided to conduct a special 14 day Repo at 9 per cent per annum for a notified amount of Rs.20,000 crore with a view to enabling banks to meet the liquidity requirements of mutual funds. Rs.3,500 crore of this facility was utilised by banks yesterday. Further, the Reserve Bank announced this morning that this 14 day repo facility will now be conducted every day until further notice upto a cumulative amount of Rs.20,000 crore for the same purpose. 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, purely as a temporary measure, that banks may avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5 per cent of their

NDTL. This additional liquidity support will terminate 14 days from the closure of this special term repo facility announced on October 14, 2008. This accommodation will be in addition to the temporary measure announced on September 16, 2008 permitting banks to avail of additional liquidity support to the extent of up to 1 per cent of their NDTL.

(iii) RBI instituted a mechanism of Special Market Operations (SMO) for public sector oil marketing companies in June-July 2008 taking into account the extraordinary situation then prevailing in the money and forex markets. RBI will institute a similar facility when oil bonds become available.

(iv) Under the Agricultural Debt Waiver and Debt Relief Scheme Government had agreed to provide to commercial banks, RRBs and co-operative credit institutions a sum of Rs.25,000 crore as the first instalment. At the request of the Government, RBI has agreed to provide the sum to the lending institutions immediately. This liquidity support will be provided by the Reserve Bank of India under Section 17(3-B) and Section 17(4E) of RBI Act to scheduled banks and NABARD respectively.

(v) **Interest Rates on NRI Deposits**

(a) Interest Rates on FCNR (B) Deposits

Currently, the interest rate ceiling on FCNR(B) deposits of all maturities has been fixed at Libor/Swap rates for the corresponding maturities minus 25 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/Swap rates plus 25 basis points.

(b) 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/Swap rates plus 50 basis points 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/Swap rates plus 100 basis points.

(vi) Banks will be allowed to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or USD 10 million, whichever is higher, as against the existing limit of 25 per cent.

The above measures will be reviewed on a continuous basis in the light of the evolving liquidity conditions.

The Reserve Bank is monitoring developments in the financial markets closely and continuously and would respond swiftly and even pre-emptively to any adverse external developments impinging on domestic financial stability, price stability and inflation expectations. The Reserve Bank is committed to maintaining financial stability and active, and flexible liquidity management using all policy instruments is an integral part of this objective.

Alpana Killawala
Chief General Manager

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