


	प्रेस प्रकाशनी PRESS RELEASE
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RBI Announces Further Measures for Monetary and Liquidity Management

In its Mid-Term Review of the Annual Policy Statement for 2008-09, the Reserve Bank of India indicated that in the context of the uncertain and unsettled global situation and its indirect impact on our domestic economy and our financial markets, it would closely and continuously monitor the situation and respond swiftly and effectively to developments. In doing so, the Reserve Bank will employ both conventional and unconventional measures. Global financial conditions continue to remain uncertain and unsettled, and early signs of a global recession are becoming evident. These developments are being reflected in sharp declines in stock markets across the world and heightened volatility in currency movements. International money markets are yet to regain calm and confidence and return to normal functioning.

It was also indicated in the Mid-Term Review that the current challenge for the conduct of monetary policy is to strike an optimal balance between preserving financial stability, maintaining price stability and sustaining the growth momentum. Inflation, in terms of the wholesale price index (WPI), has been softening steadily since August 9, 2008 and has declined to 10.68 per cent for the week ended October 18, 2008. Globally, pressures from commodity prices, including crude, appear to be abating. The moderation in key global commodity prices, if sustained, would further reduce inflationary pressures. On the growth front, it is important to ensure that credit requirements for productive purposes are adequately met so as to support the growth momentum of the economy. Domestic financial markets have been functioning normally. Prudent regulatory surveillance and effective supervision have ensured that our financial sector has been and continues to be robust. However, the global financial turmoil has had knock-on effects on our financial markets; this has reinforced the importance of focusing on preserving financial stability,

The Reserve Bank has reviewed the current and evolving macroeconomic situation and liquidity conditions in the global and domestic financial markets. Based on this review, it has decided to take the following further measures:

- (i) On October 20, 2008, the Reserve Bank announced a reduction in the repo rate under the Liquidity Adjustment Facility (LAF) by 100 basis points from 9.0 to 8.0 per cent. In view of the ebbing of upside inflation risks as also to address concerns relating to the moderation in the growth momentum, it has been decided to reduce the repo rate under the LAF by 50 basis points to 7.5 per cent with effect from November 3, 2008.

(ii) The cash reserve ratio (CRR) of scheduled banks is reduced by 100 basis points from 6.5 per cent to 5.5 per cent of net demand and time liabilities (NDTL). This will be effected in two stages: by 50 basis points retrospectively with effect from the fortnight beginning October 25, and by a further 50 basis points prospectively with effect from the fortnight beginning November 8, 2008. This measure is expected to release around Rs.40,000 crore into the system.

(iii) On September 16, 2008, the Reserve Bank had announced, as a temporary and *ad hoc* measure, that scheduled banks could avail additional liquidity support under the LAF to the extent of up to one per cent of their NDTL and seek waiver of penal interest. It has now been decided to make this reduction permanent. Accordingly, the Statutory Liquidity Ratio (SLR) will stand reduced to 24 per cent of NDTL with effect from the fortnight beginning November 8, 2008.

(iv) In order to provide further comfort on liquidity and to impart flexibility in liquidity management to banks, it has been decided to introduce a special refinance facility under Section 17(3B) of the Reserve bank of India Act, 1934. Under this facility, all scheduled commercial banks (excluding RRBs) will be provided refinance from the Reserve Bank equivalent to up to 1.0 per cent of each bank's NDTL as on October 24, 2008 at the LAF repo rate up to a maximum period of 90 days. During this period, refinance can be flexibly drawn and repaid.

(v) On October 15, 2008 the Reserve Bank announced, 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 (MFs) to the extent of up to 0.5 per cent of their NDTL. A similar facility of liquidity support for non-banking financial companies (NBFCs) is also found to be necessary to enable them to manage their funding requirements. Accordingly, it has now been decided, on a purely temporary and *ad hoc* basis, subject to review, to extend this facility and allow banks to avail liquidity support under the LAF through relaxation in the maintenance of SLR to the extent of up to 1.5 per cent of their NDTL. This relaxation in SLR is to be used exclusively for the purpose of meeting the funding requirements of NBFCs and MFs. Banks can apportion the total accommodation allowed above between MFs and NBFCs flexibly as per their business needs.

(vi) As indicated in the Reserve Bank's press release of September 16, 2008, 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. Entities with bulk forex requirements can approach the Reserve Bank through their banks for this purpose.

(vii) It has been decided, as a temporary measure, to permit Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFCs-ND-SI) to raise short- term foreign currency borrowings under the approval route, subject to their complying with the prudential norms on capital adequacy and exposure norms. Details in this regard have been notified separately and are available on the Reserve Bank's web site.

(viii) Under the Market Stabilisation Scheme (MSS), Government Securities (treasury bills and dated securities) have been issued to sterilise the expansionary effects of forex inflows. In the context of forex outflows in the recent period, it has been decided to conduct buy-back of MSS dated securities so as to provide another avenue for injecting liquidity of a more durable nature into the system. This will be calibrated with the market borrowing programme of the Government of India. The securities proposed to be bought back and the timing and modalities of these operations are being notified separately.

The Reserve Bank will continue to closely monitor the developments in the global and domestic financial markets and will take swift and effective action as appropriate.

Alpana Killawala
Chief General Manager

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