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RBI announces Measures to address Exchange Rate Volatility

The market perception of likely tapering of US Quantitative Easing has triggered outflows of portfolio investment, particularly from the debt segment. Consequently, the Rupee has depreciated markedly in the last six weeks. Countries with large current account deficits, such as India, have been particularly affected despite their relatively promising economic fundamentals. The exchange rate pressure also evidences that the demand for foreign currency has increased vis-a-vis that of the Rupee in part because of the improving domestic liquidity situation.

Against this backdrop, and the need to restore stability to the foreign exchange market, the following measures are announced:

- i) The Marginal Standing Facility (MSF) rate is recalibrated with immediate effect to be 300 basis points above the policy repo rate under the Liquidity Adjustment Facility (LAF). Consequently, the MSF rate will now be 10.25 per cent.
- ii) Accordingly, the Bank Rate also stands adjusted to 10.25 per cent with immediate effect.
- iii) The overall allocation of funds under the LAF will be limited to 1.0 per cent of the Net Demand and Time Liabilities (NDTL) of the banking system, reckoned as Rs.75,000 crore for this purpose. The allocation to individual banks will be made in proportion to their bids, subject to the overall ceiling. This change in LAF will come into effect from July 17, 2013.
- iv) The Reserve Bank will conduct Open Market Sales of Government of India Securities of Rs.12,000 crore on July 18, 2013. Details of the securities included for the OMO sale auction will be announced through a separate press release tomorrow.

The Reserve Bank will continue to closely monitor the markets, the liquidity situation and the macroeconomic developments and will take such other measures as may be necessary, consistent with the growth-inflation dynamics and macroeconomic stability.