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Reserve Bank of India


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October 10, 2008

RBI announces Reduction in CRR for Liquidity Management

On October 6, 2008 the Reserve Bank of India announced a reduction of the cash reserve ratio (CRR) for scheduled banks by 50 basis points to 8.5 per cent of net demand and time liabilities (NDTL) with effect from the fortnight beginning October 11, 2008. This measure was undertaken with a view to injecting liquidity into domestic financial markets so as to alleviate the pressures brought on by the deterioration in the global financial environment. In the ensuing days, the global situation has worsened further. International stock markets and money markets had been adversely affected in a significant manner. Central banks across the world have responded to these extraordinary developments by synchronised policy actions including measures for liquidity infusion.

In the context of the abrupt changes in the international financial environment, it is important to note that the macroeconomic fundamentals of the Indian economy are strong and resilient and that India's financial system is sound, well-capitalised and well-regulated. Money and forex markets in India have been operating in a relatively orderly manner. The current domestic market conditions are essentially a reflection of the adverse developments and extreme uncertainty in international financial markets.

Market participants are assured that the Reserve Bank stands ready to respond swiftly to meet any liquidity requirements that may arise in the context of the highly volatile external situation.

Accordingly, on a review of the evolving liquidity situation in the context of global and domestic developments, it has been decided to reduce the Cash Reserve Ratio (CRR) by 150 basis points to 7.50 per cent of NDTL with effect from the fortnight beginning October 11, 2008 instead of the 50 basis points reduction announced on October 6, 2008. As a result of this reduction in the CRR, an amount of about Rs 60,000 crore would be released into the system (instead of the injection of Rs 20, 000 crore announced earlier).

The Reserve Bank is monitoring developments closely and continuously and would respond swiftly and even preemptively to any adverse external developments impinging on domestic financial stability, price stability and inflation expectations and the continuation of the growth momentum of the Indian economy. 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