## Annex IV.1

## Management of Capital Inflows: Restrictions and Prudential Requirements – Country Experiences

**Indonesia (1990)**

- Measures imposed to discourage offshore borrowing, including limits on banks' net open-market foreign exchange positions and on off-balance-sheet positions. The three-month swap premium raised by 5 percentage points.
- All state-related offshore commercial borrowing made subject to prior approval and annual ceilings were set for new commitments over the next five years.

**Malaysia (1989)**

- Limits on non-trade-related swap transactions imposed on commercial banks.
- Banks subjected to a ceiling on their non-trade or non-investment related external liabilities.
- Residents prohibited from selling short-term monetary instruments to non-residents.
- Commercial banks were required to place with Bank Negara the ringgit funds of foreign banking institutions (Vostro accounts) held in non-interest-bearing accounts. During January-May 1994, these accounts were considered part of the eligible liabilities base for the calculation of required reserves, resulting in a negative effective interest rate on Vostro balances.

**Philippines (1992)**

- Bangko Central discouraged forward cover arrangements with non-resident financial institutions.

**Thailand (1988)**

- Banks and finance companies (a) net foreign exchange positions not to exceed 20 per cent of capital (subsequently increased to 25 per cent) and (b) net foreign liabilities not to exceed 20 per cent of capital.
- Residents disallowed from holding foreign currency deposits except only for trade-related purposes.
- Reserve requirements, to be held in the form of non-interest-bearing deposits at the Bank of Thailand, on short-term non-resident baht accounts raised from two to seven per cent. The seven per cent reserve requirement extended to finance companies short-term (less than one year) promissory notes held by non-residents. Offshore borrowing with maturities of less than one year (excepting loans for trade purposes) by commercial banks, finance companies, and finance and security companies also subjected to 7 per cent minimum reserve requirement.

**Thailand (2003)**

- Restrictions on interest payments imposed, effective October 14, 2003, on short-term borrowing in Baht from non-residents to prevent Thai Baht speculation. These include: (i) non-residents can maintain only current or saving accounts for settlement of international trade and investment transactions; deposits for other purposes must have maturity of at least six months; (ii) a deposit ceiling of 300 million Baht (equivalent of around US $ 7.5 million) per non-resident account; and (iii) financial institutions not to pay interest to overseas holders of Thai cheque and savings accounts.

**Taiwan**

- Restrictions on short-term financial transactions are used; for example, each qualified foreign institutional investor (QFII) is permitted to invest up to US $ 3 billion while individuals are permitted to invest up to US $ 5 million.

**Eastern Europe and Latin America**

**Chile (1990)**

- Non-remunerated 20 per cent (subsequently increased to 30 per cent) reserve requirement (to be deposited at the central bank for a period of one year) on liabilities in foreign currency for direct borrowing by firms.
- The stamp tax of 1.2 per cent a year (previously paid on domestic currency credits only) applied to foreign loans as well (excepting trade loans).

**Colombia (1991)**

- A 3 per cent withholding tax imposed on foreign exchange receipts from personal services rendered abroad and other transfers (but allowed to be claimed as credit against income tax liability).
- Banco de la Republica increased its commission on its cash purchases of foreign exchange from 1.5 to 5 per cent.
- Non-remunerated reserve requirement to be deposited at the central bank on liabilities in foreign currency for direct borrowing by firms. The reserve requirement to be maintained for the duration of the loan and applied to all loans with a maturity of five years or less, except

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for trade credit with a maturity of four months or less. The percentage of the requirement declined as the maturity lengthened, from 140 per cent for funds that are 30 days or less to 42.8 per cent for five-year funds.

**Czech Republic (1992)**

- The central bank introduced a fee of 0.25 per cent on its foreign exchange transactions with banks, with the aim of discouraging short-term speculative flows.
- Limit on net short-term (less than one year) foreign borrowing by banks introduced.
- Each bank to ensure that its net short-term liabilities to non-residents, in all currencies, do not exceed the lower of 30 per cent of claims on non-residents or Kc 500 million.
- Administrative approval procedures imposed to slow down short-term borrowing by non-banks.

**Mexico (1990)**

- Foreign currency liabilities of commercial banks limited to 10 per cent of their total loan portfolio. Banks had to place 5 per cent of these liabilities in highly liquid instruments.

**Brazil (1992)**

- Between October 1994 and March 10, 1995, following measures imposed: (a) one per cent tax on foreign investment in the stock market, (b) tax on Brazilian companies issuing bonds overseas raised from 3 to 7 per cent of the total and (c) tax paid by foreigners on fixed-interest investments in Brazil raised from 5 to 9 per cent.

**Note :** Dates in brackets refer to the first year of the surge in inflows.

**Sources :**

1. Reinhart and Smith (1998).
2. Central bank websites.

## Annex IV.2
## Monetary Measures for Exchange Rate Management: India

**1995-96**

- **October 30, 1995**

  - Effective October 31, 1995 with a view to discouraging excessive use of bank credit to finance imports, outstandings under the import credit limit were subject to a 15 per cent interest rate surcharge.

- **November 29, 1995**

  - With a view to making the Foreign Currency Non-Resident Accounts (Banks)[FCNR(B)] Scheme more attractive to banks and to enable them to market FCNR(B) deposits more competitively, the increase in liabilities under the FCNR(B) Scheme over the level outstanding as on November 24, 1995 was exempted from CRR, effective fortnight beginning November 25, 1995.

- **December 6, 1995**

  - With a view to enabling banks to better balance the cost of FCNR (B) deposits and the return on the deployment of their funds, average CRR on the outstanding liabilities under the FCNR (B) scheme as on November 24, 1995 was reduced from 14.5 per cent to 7.5 per cent effective fortnight beginning December 9, 1995.

- **February 7, 1996**

  - With a view to removing the distortion in the effective interest rates on post shipment export credit denominated in foreign currency (PSCFC) facility being significantly lower than under foreign currency post-shipment credit, the PSCFC was terminated effective February 8, 1996.

  - Effective February 8, 1996 the interest rate on Post-shipment Export Rupee Credit for over 90 days and up to 180 days was deregulated.

  - Effective February 8, 1996 outstandings under the import credit limit were subject to a 25 per cent interest rate surcharge.

**1997-98**

- **December 2, 1997**

  - The CRR on net demand and time liabilities (NDTL) of scheduled commercial banks was raised by 0.5 percentage points to 10.0 per cent, effective fortnight beginning December 6, 1997.

  - The incremental CRR of 10.0 per cent on NRE and NRNR deposit schemes was removed effective fortnight beginning December 6, 1997.

- **December 17, 1997**

  - Effective December 18, 1997, banks were to charge a minimum interest rate of 20.0 per cent per annum, on overdue export bills from the date of advance. Earlier banks were free to charge any rate of interest on overdue export bills which were not realised within the due date.

  - An interest rate surcharge of 15.0 per cent of the lending rate on bank credit for imports was introduced, effective December 18, 1997.

- **December 31, 1997**

  - Effective January 1, 1998, the interest rate on post shipment rupee export credit beyond 90 days and up to six months was reduced from 15.0 per cent to 13.0 per cent.

- **January 16, 1998**

  - The Bank Rate was raised by two percentage points to 11.0 per cent per annum, effective January 17, 1998.

  - The repo rate was raised by 2 percentage points to 9 per cent, effective January 17, 1998.

  - CRR was raised by 0.5 percentage point to 10.5 per cent of NDTL of scheduled commercial banks effective fortnight beginning January 17, 1998.

  - Effective fortnight beginning January 17, 1998, all scheduled commercial banks were to be provided export credit refinance to the extent of 50 per cent of the increase in outstanding export credit eligible for refinance (as against 100 per cent earlier) over the level of such credit as on February 16, 1996.

  - Effective January 17, 1998, the interest rate surcharge on bank credit for imports (excluding export related imports) was raised from 15 per cent of the lending rate to 30 per cent.

**1998-99**

- **June 11, 1998**

  - To enable exporters to avail of export credit in foreign currency more effectively at internationally competitive

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rates, banks were to charge a spread of not more than 1.5 percentage points over LIBOR.

- **June 13, 1998**

  **-** The Reserve Bank reduced the fixed repo rate by one percentage point to 5 per cent, effective June 15, 1998.

- **August 6, 1998**

  - A temporary revision in the interest rates charged up to March 31, 1999 by the scheduled commercial banks on pre-shipment and post-shipment rupee export credit was effected. It was decided that scheduled commercial banks would be provided export credit refinance at 2.0 percentage points below the Bank Rate (*i.e.,* 7.0 per cent per annum).

- **August 20, 1998**

  - As a temporary measure, in order to absorb excess liquidity, the CRR to be maintained by the scheduled commercial banks against their NDTL (excluding liabilities subject to zero CRR prescription) was increased from 10 per cent to 11 per cent, effective fortnight beginning August 29, 1998.

- **August 21, 1998**

  **-** The fixed repo rate was increased by three percentage points to 8 per cent from 5 per cent.

**2000-01**

- **May 25, 2000**

  - An interest rate surcharge of 50 per cent of the lending rate on import finance was imposed with effect from May 26, 2000, as a temporary measure on all non-essential imports.

  -Banks were advised to charge interest at 25 per cent per annum (minimum) from the date the bills fall due for payment in respect for overdue export bills in order to discourage any delay in realisation of export proceeds.

- **July 21, 2000**

  - The Bank Rate was increased by 1 percentage point from 7 per cent to 8 per cent effective July 21, 2000.

  - CRR was increased by 0.5 percentage point from 8 per cent to 8.5 per cent in two stages by 0.25 percentage point each effective from fortnights beginning July 29, 2000 and August 12, 2000, respectively.

  - The limits available to banks for refinance facilities including the collateralized lending facility (CLF) were reduced temporarily to the extent of 50 per cent of the eligible limits under two equal stages effective from July 29, 2000 and August 12, 2000.