

RBI Press Release

Non-Resident Indian Deposits : Arbitrage Opportunities (May 22, 2003)

In the context of India's strong foreign exchange position and the recent appreciation of the Rupee *vis-à-vis* US Dollar, there has been some discussion in the media and among bankers that inflows into nonresident Indian (NRI) deposit have been taking place in order to take advantage of arbitrage opportunities. The arbitrage opportunities are possible on account of higher domestic rupee interest rates than the Dollar/ Euro interest rates abroad.

The provisional data on various components of NRI deposits for the full fiscal year of 2002-03, as compiled by the Department of Economic Analysis and Policy (DEAP), Reserve Bank of India, are now available and are in Table 1.

**Table 1 : Net Inflows under Various Non - Resident
Deposit Schemes**

Items	2001-2002	2002-2003
(I) Dollar Accounts:		
FCNR (B)	594	520
(II) Rupee Accounts :	2134	2284
(a+b)		
(a) NRE	1626	5988
(b) NRNR	508	-3704
Total : (I + II)	2728	2804

It may be noted that Rupee accounts as shown in Table 1 include inflows into Non-Resident (External) Rupee Accounts (NRE account) as well as Non-

Resident (Non-Repatriable) Rupee Deposits (NRNR account). It may be recalled that the NRNR account was discontinued effective April 1, 2002 with a view to providing full convertibility of NRI deposit schemes. The existing accounts of NRNR Deposits were permitted to continue up to the date of maturity. The maturity proceeds of the NRNR deposits could be credited to the account holders' NRE account.

As it may be seen from Table 1, the inflows into total NRI rupee deposits during fiscal 2002-03 amounted to US\$ 2,804 million, which were only marginally higher than the US\$ 2,728 million in the previous year. Thus, there is no significant increase in the inflows. In view of the discontinuation of NRNR deposits during 2002-03, there has been an outflow of US\$ 3,704 million from these accounts into NRE account.

The trend has been similar even during the last quarter of the fiscal year 2002-03 (January-March) when the dollar was depreciating against the Rupee. The inflows into NRI deposits during this period amounted to only US\$ 434 million, marginally lower than US\$ 474 million during the same period last year.

Furthermore, as announced in the Monetary and Credit Policy for the year 2003-04, the minimum maturity period of the fresh NRE deposits has been increased from six months to one year similar to FCNR(B) deposits. Thus, inflows of so-called "hot money" or "short term funds" by way of NRI deposits are not expected.