RBI Press Release

RBI-SBI put in place arrangements for Redemption of RIBs

(July 11, 2003)

The Reserve Bank of India has put in place arrangements for redemption of Resurgent India Bonds (RIBs), in close consultation with the State Bank of India (SBI). The arrangements have been put in place in order to ensure that redemption of these bonds is done smoothly, in time and without causing any impact on domestic liquidity, money market or on the foreign exchange market. The highlights of the arrangements for redemption are:

- The foreign currency required by SBI for redemption will be sold by the Reserve Bank at the prevailing market rates on the date of maturity. The total amount of bonds to be redeemed, inclusive of the interest component is expected to be of the order of US dollar 5.5 billion.
- The Reserve Bank has built up adequate amount of forward foreign currency assets of US $ 4,186 million (or about $ 4.2 billion) as on May 31, 2003 as reported in the Reserve Bank's Monthly Bulletin for July 2003. The present holding of forward foreign currency assets continues to be around this level. The Reserve Bank will sell foreign currency to SBI primarily out of its forward foreign currency assets which will fall due around the date of redemption. Any balance requirements, which are likely to be relatively small, will be met out of the foreign exchange reserve holdings of the Reserve Bank by way of outright sales to SBI. The impact of the Reserve Bank redemption on India's current foreign exchange reserves is thus likely to be relatively small.
- SBI has also taken steps to build up an adequate amount of rupee resources to fund foreign currency purchases from the Reserve Bank. In case of any additional rupee requirement, the Reserve Bank will extend the regular reverse-repurchase facilities to SBI. These reverse repurchase transactions will be undertaken as a part of the normal Liquidity Adjustment Facility as per the prevailing rate structure (*i.e.*, two percentage points above the daily Repo Rate on the dates of these transactions).
- The Present balance in the Maintenance of Value (MoV) account is more than adequate to cover the exchange loss on account of rupee depreciation till date. An MoV is maintained in the Reserve Bank to fund periodic contributions received from the State Bank of India and the Government of India to cover any changes in the exchange rate of the rupee *vis-a-vis* dollar and other foreign currencies. Due to the appreciation of the rupee against the dollar in the recent past, it is likely that there will be a surplus in this account at the time of redemption. This surplus will be returned to SBI/Government of India (GOI) in the same proportions as their contributions to the MoV account.

It is expected that although RIB redemption is large in magnitude, it will have little or no impact on the domestic markets including money, foreign exchange and securities markets due to these arrangements.

Since a large portion of the redemption requirements in foreign exchange will be met out of the Reserve Bank's forward foreign exchange assets, it will not have a sizeable impact on the current holdings of reserves. Further, the injection of rupee liquidity by the Reserve Bank on account of purchase of forward foreign currency assets at the time of maturity will balance the absorption of equivalent rupee resources from the SBI.

The Reserve Bank will continue to work in close coordination with SBI to ensure a smooth and orderly redemption of RIBs as soon as they become due.

Background

It may be recalled that, with the approval of the GOI and the Reserve Bank of India, the RIBs were floated by the SBI in August 1998 for investments by Non-resident Indians and Overseas

Corporate Bodies. RIBs were issued in US dollars, Pound Sterling and Euros (then Deutsche Mark) for a tenor of five years. About 94.25 per cent of the total collection was in US Dollars. The total subscription in these bonds was equivalent of US dollar 4.23 billion. The bonds are transferable among NRIs and can also be gifted to a resident.

The entire proceeds, equivalent to Rs. 18,123 crore at the then prevailing market exchange rate were sold by SBI to the Reserve Bank. The rupee resources received by SBI were deployed in deposits with participating banks for mobilising RIB, investment in Government securities and placements in infrastructure bonds, *etc*.

The RIBs are due for redemption on October 1, 2003. The RIBs also carry the option of encashment before maturity with a minimum lock-in period of six months.

Note : The Reserve Bank will issue an updated press release on the redemption arrangements for RIBs closer to the date of their actual redemption.