RBI PRESS RELEASE

RBI-SBI make redemption of Resurgent India Bonds (RIBs) : An Update

(September 18, 2003)

Background

In an earlier Press Release dated July 11, 2003, the Reserve Bank of India had indicated the arrangements put in place in association with State Bank of India to ensure smooth redemption of Resurgent India Bonds (RIBs). It has stated in the said press release that "the Reserve Bank will issue an updated press release on the redemption arrangements for RIBs closure to the date of their actual redemption".

With the approval of Government of India and the Reserve Bank of India, the RIBs were floated by the SBI in August 1998. SBI had collected USD 4.23 billion and the entire RIB corpus was sold to RBI at the prevailing market exchange rate. As consideration SBI was paid Rs.18,123 crore. About 94.25 per cent of the corpus was in USD and the remaining in GBP and EURO (then DEM). The RIBs are due for redemption on October 1, 2003 and are expected to be in the vicinity of equivalent USD 5.5 billion.

Most of the foreign exchange required for redemption will be met by RBI directly (out of forward purchases already in place) and the balance requirements of SBI will be provided by RBI from out of its own resources. Thus no cognisable impact is anticipated on the foreign exchange market. Further the arrangements put in place by RBI-SBI are expected to ensure smooth conduct of operations in the money and foreign exchange markets though large value/volume transactions may be condensed in a few days.

Impact of RIB redemption

The Reserve Bank will be infusing rupee liquidity into the market on account of purchase of forward foreign currency assets and this will, to a great extent, neutralise the rupee outgo from SBI to RBI for purchasing the foreign exchange required for redemption. The balance lying in the Maintenance of Value account built up during the last 5 years would be used to meet the exchange loss. SBI would, therefore, be paying to RBI only the balance amount which would depend on the market exchange rate prevailing on the date of redemption. Going by the present liquidity conditions in the market, it is felt that the system should be in a position to take care of the redemption requirements. Further, the eligible market participants can take recourse to the LAF of RBI (which consists of repo/reverse repo and backstop facilities) for short term requirements of rupee funds.

Remobilisation of RIB redemption proceeds

In the Press Release issued on July 11, 2003 RBI has clarified that banks will be free to remobilise the redemption proceeds of RIBs strictly through the existing schemes available for non-resident Indians for bank deposits or any other investments. The funds thus mobilised will have no special features attached other than those available to existing deposits. The RBI will be closely monitoring the inflow into the deposit schemes *viz*. FCNR(B) and Non-Resident (External) Account and appropriate operational strategies would be worked out to ensure smooth absorption of the flows.

The arrangements already made by RBI and SBI are:

- RBI will promptly issue instructions to its correspondents abroad to deliver foreign exchange to SBI/beneficiaries in three currencies *viz*. US Dollar, GBP and EURO to cover the Principal and interest payments so that the bond holders receive their money on the due date.
- SBI has made arrangements to receive back the rupee deposits placed with the banks, which had associated with SBI in mobilisation of RIBs.
- SBI has made arrangements for rupee resources to acquire foreign exchange from RBI.