RBI PRESS RELEASES

"Maintenance of Value" Account : RBI-Government of India Arrangement to Cover Exchange Risk for RIBs (October 12, 1998)

In consultation with the Reserve Bank of India, the Government of India has worked out an arrangement to cover the exchange risk under the Resurgent India Bond (RIB) Scheme. The details of the arrangement are:

i) The Reserve Bank will open a separate account titled 'RIB-Maintenance of Value Account (RIB-MOV) to enable the State Bank of India (State Bank) and the Government to make contributions to this account every year on account of exchange variation on receipts under the RIB Scheme.

ii) Commencing September 1998, at the end of September every year, until the redemption of the bonds, the exchange loss/gain will be worked out as the difference between the weighted average rate at which the currencies were initially acquired by the Reserve Bank and the prevailing market rate.

iii) As per the arrangement between the Government and the State Bank, the exchange loss, if any, will be borne by the State Bank to the extent of one per cent per annum on the rupee equivalent of the amount initially credited and exchange loss up to one per cent per annum (compounded annually) of the rupee equivalent of the interest accrued/paid thereon. Any loss in excess of this percentage would be borne by the Government.

iv) The Government will issue non-negotiable, non-interest bearing special securities without specified maturity in favour of the Reserve Bank to the extent of exchange loss to be borne by the Government under the Scheme. The proceeds of the securities would be deposited in the RIB-MOV Account.

v) The State Bank on its part will pay its share of the exchange loss for the year, if any, to the credit of RIB-MOV Account.

vi) For payment of interest/repayment of the bonds, the Reserve Bank would sell foreign currencies directly to the State Bank at the then prevailing exchange rate. The State bank would pay the amount initially received by it and the balance will be met out of the RIB-MOV Account.

vii) The Scheme would terminate as at the end of September 2003. However, a period of six months ending March 2004 would be allowed for final settlement of the accounts.

viii) It is clarified that the MOV arrangement is restricted to the transactions between the Government, the State Bank, and the Reserve Bank in respect of the RIB Scheme. All sales of foreign currency by the Reserve Bank in the forex market (including those out of RIB proceeds) will continue to be at the prevailing market exchange rate and the ultimate user/buyer of foreign currency in India will not enjoy any exchange rate protection under the Scheme.

Impact of 'Maintenance of Value' (MOV) Arrangements on Money Supply and Government Budget

Technically, during the operation of the RIB-MOV scheme, there will be an increase in Reserve Bank's net credit to the Government to the extent of Reserve Bank's investments in non-negotiable securities issued by the Government for the purpose of meeting its contribution to the MOV account. There will, however, be no increase in currency in circulation or the deposit base of the banking system on account of MOV arrangements. As such, there will be no change in reserve money or money stock on this account. Similarly, the effect on the Government Budget will be neutral as payment by the Government to the MOV account will be exactly offset by receipts against the issue of Government securities.

Technical Note :

In the fortnightly statistics on Components and Sources of Reserve Money/Money Stock(M_3) released by the Reserve Bank, during the operation of the MOV arrangement, the increase shown in net bank credit to the Government on account of purchase of Government securities will be exactly offset by the equivalent increase in "Net non-Monetary Liabilities of the Reserve Bank". (An increase in Net Non-Monetary Liabilities has a contractionary effect on money supply) As such, on account of MOV arrangement, all other things remaining the same, there will be no change in Reserve Money or M_3.

Facility to Operate Bank Account by Old/Sick/Incapacitated Customers (November 5, 1998)

The Reserve Bank of India has prescribed a procedure which banks can follow to enable the old/sick/incapacitated account holders to operate their bank accounts. In a circular issued recently, the Reserve Bank has identified two categories of sick/old/incapacitated customers. One who is too ill to sign a cheque/cannot be physically present in the bank to withdraw money from his bank account but can put his/her thumb impression on the cheque/withdrawal form; and the other who is not only unable to be physically present in the bank but is also unable to put his/her thumb impression on the cheque/withdrawal form due to certain physical defect/incapacity.

The Reserve Bank has, in such cases, asked the banks to get the thumb/toe impression of the sick/old/incapacitated account holders identified by two independent witnesses known to the bank, one of the witnesses being a responsible bank official.

The Reserve Bank has further stated that in case the customer cannot put his/her thumb impression and is also unable to be physically present in the bank, the bank should obtain a mark on the cheque/withdrawal form. This mark should be identified by two independent witnesses, one of whom should be a responsible bank official. Further, the customer may be asked to indicate to the bank as to who would withdraw the amount from the bank. This person should also be identified by two independent witnesses. The person who would actually be drawing the money from the bank should be asked to furnish his signature to the bank.

The question of extending a suitable facility to old/sick/incapacitated bank customers for operation of their bank accounts had been engaging the attention of the Reserve Bank for quite some time. In consultation with the Indian Banks' Association, the Reserve Bank has decided to offer the above facility to old/sick/incapacitated persons and who are not willing to open a joint account. Similar facility is already available to pension account holders.