

**Mid-term Review of Monetary and Credit Policy for the year 2002-03
Interest Rates on Deposits by Banks/RRBs/Local Area Banks**

**Reserve Bank of India
Central Office
Department Of Banking Operations And Development
Centre - 1, World Trade Centre
Cuffe Parade, Colaba, Mumbai - 400 005**

DBOD No. Dir. BC. 38 /13.03.00/2002-03

November 5, 2002

**To All Commercial Banks
(including RRBs and LABs)**

Dear Sir,

**Mid-term Review of Monetary and Credit Policy for the year 2002-03
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Please refer to paragraph 72 of the statement on ‘**Mid-term Review of Monetary and Credit Policy for the year 2002-03**’ enclosed with Governor’s letter No. MPD. BC. 222/07.01.279/2002-03 dated October 29, 2002.

2. It may be recalled that while interest rates on deposits stand de-regulated except on deposits in savings bank accounts, discretion has been given to Regional Rural Banks (RRBs)/Local Area Banks (LABs) to pay additional interest of half per cent per annum over and above the interest rate prescribed for Scheduled Commercial Banks. Similarly, although interest is not payable on current accounts maintained with them, Scheduled Commercial Banks have been given the discretion to pay interest on current accounts maintained by RRBs sponsored by them at a mutually agreed rate.

3. The above discretionary provisions generally add to increase in the cost of deposits to the concerned institutions. In order to remove the above anomalies, the following measures are suggested for implementation as early as possible:

- *RRBs/LABs are encouraged not to pay any additional interest on the savings bank accounts over and above what is payable by commercial banks.*
- *Sponsor banks are encouraged not to pay interest on the current accounts maintained by RRBs with them.*

4. Please acknowledge receipt.

Yours faithfully,

(R. C. Agrawal)
General Manager