

November 1, 2004

**All Scheduled Commercial Banks
(Excluding RRBS)**

Dear Sir,

**Mid-term Review of Annual Policy Statement for the year 2004-05 –
Reduction of Tenor of Domestic/ Ordinary Non-Resident (NRO) Term Deposits**

Please refer to the paragraph 2 and Annexure I of our Master Circular DBOD. No.Dir. BC. 9/13.03.00/ 2004-05 dated July 16, 2004, as amended from time to time, specifying interest rates on deposits of money accepted and renewed under different categories of deposit accounts. At present, the banks can accept term deposits of Rs.15 lakh and above for a minimum maturity period of 7 days and in the case of term deposits of less than Rs.15 lakh, the minimum maturity period has to be 15 days.

2. In this connection, we invite a reference to paragraphs 73 and 74 (copy enclosed) of the Mid-term Review of the Annual Policy Statement for the year 2004-05 enclosed to the Governor's letter MPD.No.256/07.01.279/2004-05 dated October 26, 2004. As mentioned therein, the above guidelines have been reviewed and it has been decided that in order to provide uniformity in the tenor of term deposits, the banks may, at their discretion, reduce the minimum tenor of domestic/ NRO term deposits even below Rs.15 lakh from 15 days to 7 days. However, the banks would continue to have the freedom to offer differential rates of interest on term deposits of Rs.15 lakh and above, as hitherto. The revised instructions would come into effect from **November 1, 2004**.

3. The other instructions contained in the Master Circular DBOD.No.Dir.BC.9/13.03.00/ 2004-05 dated July 16, 2004, as amended from time to time, shall remain unchanged.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager

Encl. :

Extract of Mid- term Review of Annual Policy Statement for the year 2004-05

Interest Rate Policy

(c) Reduction of Tenor of Domestic Term Deposits

73. At present, while the minimum maturity of wholesale domestic term deposits (Rs.15 lakh and above) is 7 days, it continues to be 15 days for retail domestic term deposits (under Rs.15 lakh). In order to provide uniformity in the tenor of term deposits, it is proposed that:

Banks, at their discretion, can reduce the minimum tenor of retail domestic term deposits (under Rs.15 lakh) from 15 days to 7 days.

74. Banks, however, would continue to have the freedom to offer differential rates of interest on wholesale domestic term deposits of Rs.15 lakh and above as at present.