

August 11, 2006

All Scheduled State Co-operative Banks and
Regional Rural Banks

Dear Sir,

Section 42 (1) of Reserve Bank of India Act, 1934 - Penalties on default in maintenance of Cash Reserve Ratio (CRR)

Please refer to our circular RBI/2005-2006/424 RPCD.RF.BC.93/07.02.01/2005-2006 dated June 22, 2006 on the captioned subject, wherein it was advised that the Reserve Bank will not be paying any interest on the CRR balances maintained by Scheduled State Co-operative Banks/ Regional Rural Banks with effect from the fortnight beginning June 24, 2006.

2. Consequently, with effect from the fortnight beginning June 24, 2006 penal interest will be charged as under in cases of default in maintenance of CRR by Scheduled State Co-operative Banks/Regional Rural Banks:

- (i) In cases of default in maintenance of CRR requirement on a daily basis, which is presently 70% of the total Cash Reserve Ratio requirement, penal interest will be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day/s, penal interest will be recovered at a rate of five per cent per annum above the bank rate.
- (ii) In cases of default in maintenance of CRR on average basis during a fortnight, penal interest will be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934.

Yours faithfully,

(K.Bhattacharya)
General Manager